## How Much Is Going Out Exercise

Please get out all your canceled checks, ATM statements, credit card bills, whatever will tell you how you spent your money over the past year. These papers are more revealing than a diary; they contain the key to how much it really costs you live your life.

## INSTRUCTIONS:

Go through your bank statements, credit card receipts, cash receipts, all the receipts for the past year.

Using the chart we've created for you below, record the amount that you spent monthly in each category. If there is a category relevant to you not listed in our chart, then add it in the spaces we've left blank. If you are planning for your retirement, add new categories (such as joining a social club) and subtract old ones that will no longer apply. After all the categories are complete, total each category in the column "Total Yearly by Category"

Then for each category, divide the "Total Yearly by Category " by 12. This will give you how much you spend per month on average for each category. Write the figure in the column "Monthly Average by Category."

Now add together all the "Monthly Average by Category" and total the amount of the " Actual Monthly Average By Category" at the bottom of the chart. This will tell you the average that it costs to live each month for all categories. Remember, these are averages. If your average is $\$ 3,000$, most months you'll spend less --say $\$ 1,800$ or $\$ 2,000$. But in some months you'll spend $\$ 5,000$ to $\$ 6,000$. But $\$ 3,000$ is the number you need to work from.

| HOW MUCH IS GOING OUT |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | January | February | March | April | May | June | July | August | September | October | November | December | Total Yearly | Monthly Avg. by Category (take the total yearly and divide by 12 |
| Mortgage rent |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Property Taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Home Maint./Cond |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Home Insurance |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Burglar Alarm |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gardening |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Firewood |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Pool/Spa |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cigarettes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| House Cleaner |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gas \& Electric |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Telephone/Cellular |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Water |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Garbage |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Auto Expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Tools/Park/Transpl |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Food/Restaurants |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Vet Bill |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Clothes/Shoes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



## How Much Is Coming In Exercise

Knowing what is going out is only one part of getting honest with yourself. You have also got to know if you have the money coming in to pay for what is actually going out. So now you are going to match exactly what you have coming in after taxes with the figure of what you have going out on average.

On the next page I want you to write down all the income that you have coming in from all sources. Please calculate only the amount you are fairly certain will continue coming in for at least two more years or, if you are planning for retirement, that will come in perpetually, such as Social Security payments, pension payments, or annuities. If you loaned someone money, for example, and she has been paying you back regularly but owes only three more payments, don't include this figure. Or, if you're working and about to retire or be laid off, don't count the few paychecks you have left. Be as realistic as possible as to how much you can really count on month in and month out.

| INCOME CHART |  |
| :--- | :--- |
| Yearly paychecks after taxes / deductions |  |
| Yearly Amt. Predictable bonuses |  |
| Social Security income |  |
| Disability income |  |
| Bond / interest income |  |


| Interest Income |  |
| :--- | :--- |
| Dividend Income |  |
| Rental income |  |
| Gifts from parents ( if you can count on them) |  |
| Loan repayments |  |
| Pension income |  |
| IRA income |  |
| Misc. |  |
| TOTAL \$ |  |

Take this total above and divide by 12. This figure is the average monthly amount you have coming in after taxes. Write the figure in the box below:

## MONTHLY AVERAGE COMING IN:

## Where Do I Stand?

In the box below you will be comparing the difference between the amount coming in and going out on a monthly average. Write the "Monthly Average Coming In" from the above table, in the first box below. Next write the "Monthly Average Going Out" from the bottom the first table, in the second box on the chart below.

Take the "Monthly Average Coming In" and subtract the "Monthly Average Going Out." This final figure, the difference of the two, represents a monthly sum that is in excess or deficit. Now you know exactly where you stand.

| MONTHLY AVERAGE COMING IN |  |
| :--- | :--- |
| Minus (-) |  |
| MONTHLY AVERAGE GOING OUT |  |
| DIFFERENCE OF THE TWO (monthly sum <br> deficit or excess) |  |

## Where Do I Go From Here?

If after doing these last two exercises you discover that you have more than enough money coming to pay your expenses than you are doing fabulously.

But if you have found that you have more going out than you do coming in-which is more often the case than not-you are left with two options:
*Make More Money and/or Choose How Much You Want to Spend in Each Category

True financial freedom is attained by the combination of not only making more money but at the same time choosing how much you want to spend in each category. Notice my wording. I didn't say how much you are allowed to spend. I did not say to spend less. I said, decide how much you want to spend in each category. If you're spending more than you're earning, this solution is not about creating limitations. It's about making decisions determining what you most want to spend your money on. This does not mean that you have to take one drastic action that crimps your pleasures and quality of life, such as getting by with one car when your family needs two. Unrealistic budget cuts, like unrealistic diets, never work. Realistic budgeting means making wise choices, not deprivation.

## Deciding How I'm Choosing To Spend My Money

## INSTRUCTIONS

1. Below, there is a worksheet, "How I Choose to Spend My Money." In the first column "How Much Went Out Last Year" write down the yearly information that you listed in the worksheet "How Much is Going Out".
2. Now it's time for you to take control of your money by filling in the next column, "How Will I Spend This Year." Since you know how much you overspent last year, decide where you are going to cut back in certain areas. Or reallocate funds to a category that you would rather be spending your money.
3. Each month when you pay your bills, track your spending in each category by filling in the monthly columns in the chart. You might challenge yourself to spend less than the maximum amount you've chosen and build up your savings. If you use up any allocation early, and want to spend more in that category, you'll have to make new decisions about what, if anything, you want to do by seeing where you stand with the other categories. Robbing Peter to pay Paul, so to speak, except that you're Peter and you're also Paul.
4. For instance, you decided you wanted to spend $\$ 2,000$ this year on clothes. But in November you find a $\$ 200$ coat you want, after the $\$ 2,000$ was already been spent. Before buying the coat or deciding to go without, first check your other categories. Maybe you can choose to cut your vacation short and saved $\$ 200$. Take the $\$ 200$ and buy the coat. As long as the numbers always balance, you're in the driver's seat.
5. It's important to be flexible. You might decide midyear that you miss your Friday night dinners on the town and would rather forfeit a few movies. So you can deduct money from one category and add it to another and keep reorganizing how you spend your money as the year proceeds. Please try and allocate an extra \$50 to \$100 each month for miscellaneous unpredictable expenses, such as medical bills not covered by your insurance. There is no way to avoid such surprise costs, so you need to figure them in.

* For those planning for retirement, you will want to decide how much additional investment money, if you have it, to keep safe and sound in order to generate the difference between your guaranteed income and expenses.


## HOW I CHOOSE TO SPEND MY MONEY

|  | Money Spent in January | Money Spent in February | Money Spent in March | Money <br> Spent in April | Money Spent in May | Money <br> Spent in June | Money Spent in July | Money Spent in August | Money Spent in September | Money Spent in October | Money Spent in November | Money Spent in December |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| How Much Went Out |  |  |  |  |  |  |  |  |  |  |  |  |



| Hobbies/Computers |  |  |  |  |  |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Miscellaneous |  |  |  |  |  |  |  |  |  |  |  |  |

## EARLY RETIREMENT

Retirement doesn't necessarily mean sixty-five anymore. Early retirement now can mean fifty to fifty-five years of age. In order to entice long-term, relatively well-paid employees to retire early, many companies offer them additional benefits such as an increased pension, the opportunity to receive the pension immediately, and health-care benefits. Another common inducement is to offer a lump-sum severance payment. . If this is the case, your company pension usually does not begin prior to age fifty-five, so the severance amount will help get you through this lag period. For many working people, the prospect of early retirement will be one of the hardest decisions to make. The considerations are numerous and will have to be reconciled in a fairly short time. Carefully taking stock of the emotional and financial consequences of an offered early retirement becomes essential because they will generally differ from an anticipated and planned retirement.

To understand whether you are financially ready to retire early, you may want to seek advice from a financial professional. In fact, when a company offers an early retirement incentive, the word gets out quickly and you will undoubtedly have financial advisors beating a path to your door.

## ASSESSING THE SITUATION

Carefully evaluate your immediate situation and your long-range plans in the following areas of concern.

## THE FINANCIAL FACTORS

Do you have money set aside for these eventualities?
Spousal Income Does your spouse or partner work? If you count on his or her income, how much longer will he or she be willing to work?* Is there a possibility that this person, too, may be presented with an early retirement offer, or lose his or her job? Could you make it financially without the second income?

## Children and Education

Do you still have children in school? Will this early retirement affect your ability to pay for their education? Can you ask your children to pay for part or all of their education?

* If you are taking early retirement because your spouse or partner's earning cover your financial needs and you are dependent on those earnings, you should consider purchasing a "level term" life insurance policy on him or her to protect you in case anything happens to your spouse or partner if he or she is not adequately insured. You will need a policy only for the number of years your spouse or partner plans to work. If her or she will retire in ten years, take out a ten year policy Parents Will you be financially responsible for an elderly parent in the future? Are you going to inherit any money?*

Your Home Are you planning to sell your home? Is it a good time to be selling? Will you buy a new home? Is it a good time to be buying? Does your home need immediate or foreseeable repairs, such as a new roof? Do you already have money set aside for these repairs?

## Life's Little (and Not So Little) Luxuries

How is your car holding up? Does it require a lot of repairs? When will you be needing or wanting a new car? Do you like to travel? Is this something you planned to do during retirement? What other luxury items did you have your heart set on? A boat? A motor home? Will you still be able to afford them? Can you live without them?

## Health Care

Will your company be passing on part of your health insurance costs to you now or in the future? When you turn sixty-five, will the company discontinue health insurance for your spouse? Do you have a durable power of attorney for health care or long-term-care insurance? Now is the time to put things in order, not later, when the unforeseen could be very costly. Will you now be responsible for your own dental and optical care? Most early retirement health benefit offers will not include dental or optical care. If you company now covers these two and if early retirement is in the air, get all your dental and optical work completed beforehand. If dental and optical care are not part of the retirement plan, you will be offered the opportunity to continue coverage for the next eighteen months under COBRA.

