

## Chapter 18: Let's Spend Our Money! – Additional Material

Here are a few more insights on spending our money that were cut from *Live Long & Prosper!* to make it a reasonable length. We'll cover utility theory, explore an extended inventory of our *E*, and end with a little humor.

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First, let's look at ...

### **Utility theory.**

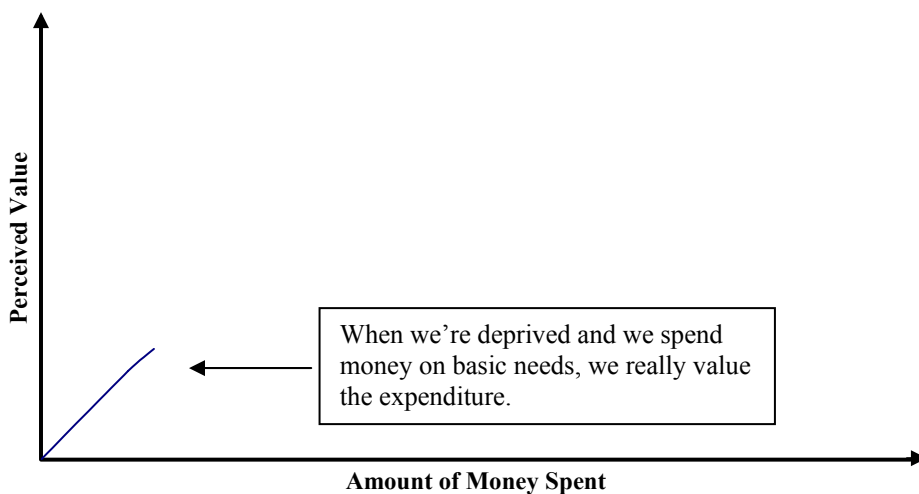
This theoretical model for looking at expenditures has been around awhile in academic circles. Economists measure the 'utility' or the subjective value or usefulness of an expenditure relative to the money spent. We can apply this theory to spending on individual items, or for our overall spending. Let's take a look.

Suppose we don't have much money and we're really struggling to make ends meet. We are constantly hungry and our house is a dump. The roof is leaking, it's really cold in the winter, and we share it with lots of animal and insect friends. Using language in *Live Long & Prosper!*, we are spending well below *just enough* for our basic living needs. Our weight is at the low end of the healthy range for the Body Mass Index (BMI) that we discussed in Chapter 7 of *Live Long & Prosper!* By the way, many people in the world live this way, yet their reported happiness doesn't differ much from ours.

Now suppose a kind benefactor gives us some money to buy groceries. We go to the store and buy food we've been longing for - fresh fruits, vegetables and a little meat. We have a good meal, and we take much enjoyment from seeing our family get the nourishment they need. We didn't have some of our favorite foods, and there was no food left over when we finished, but we're joyful at our good fortune.

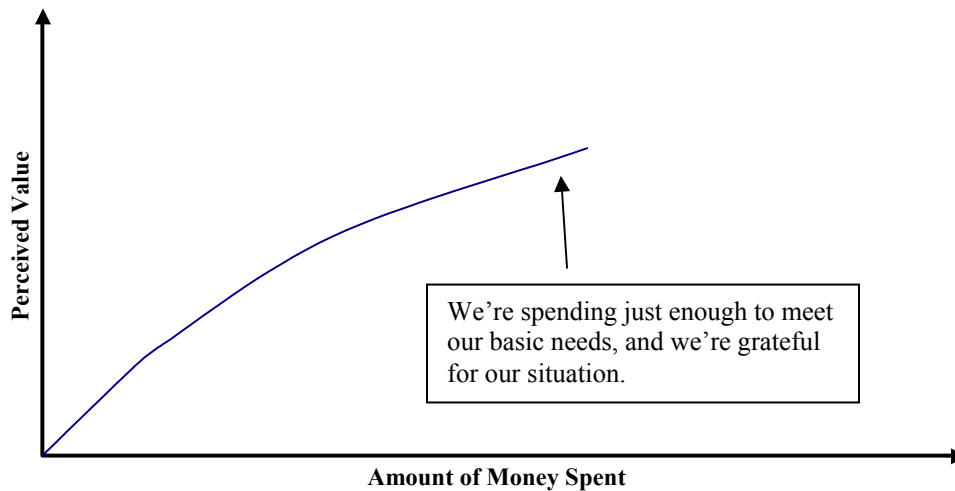
Economists would say that we got a lot of utility from spending just a little money. If they graphed our perceived value compared to the amount of money spent, it would look like Figure 18.1.

**Figure 18.1**



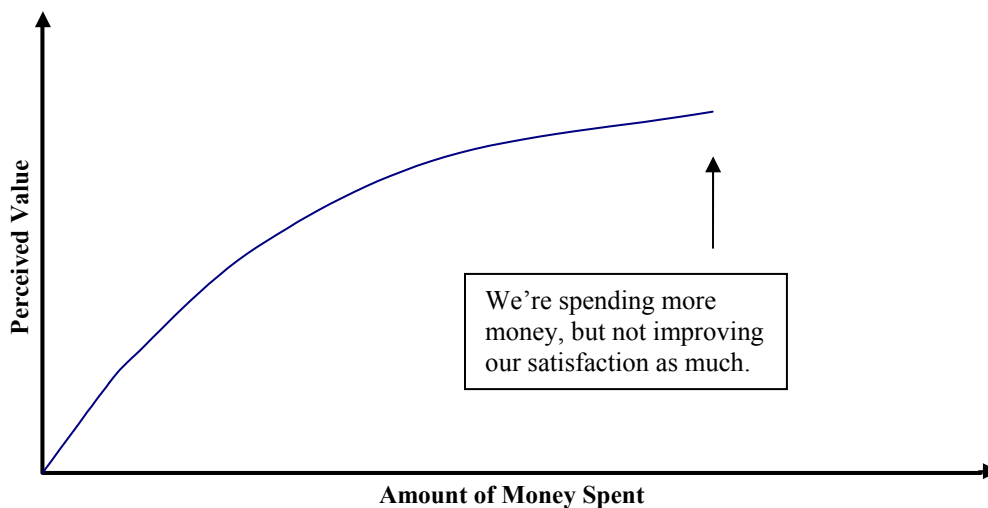
Now suppose we keep getting this money from our benefactor, and three months later we've been eating very well. We get the chance to eat some of our favorite foods, and we manage to have a few leftovers from most meals. Our outlook on life has improved dramatically, we feel optimistic about the future. We no longer feel deprived. We are spending *just enough* to maintain good health. We're at a healthy weight, measured by the BMI. We still have the memory of hunger, so we really appreciate our situation.

If our economist friends graphed our perceived value compared to the amount of money spent, it would look like Figure 18.2.

**Figure 18.2**

Now suppose our benefactor increases our food allowance. We indulge in some luxuries – dessert, a little wine, some snacks for between meals, our favorite candies. These items are much more expensive than basic food that is good for us, but we go ahead and buy them anyway. After all, we deserve it after suffering for so long. We buy enough food to have seconds at our meals, with leftovers to spare. Six months later, our weight is near the top of the BMI. When we think about our happiness with respect to food, it's not that much different from before. Sure, we enjoy the luxuries, but they don't add much satisfaction.

If our economist friends graphed our perceived value compared to the amount of money spent, it would look like Figure 18.3.

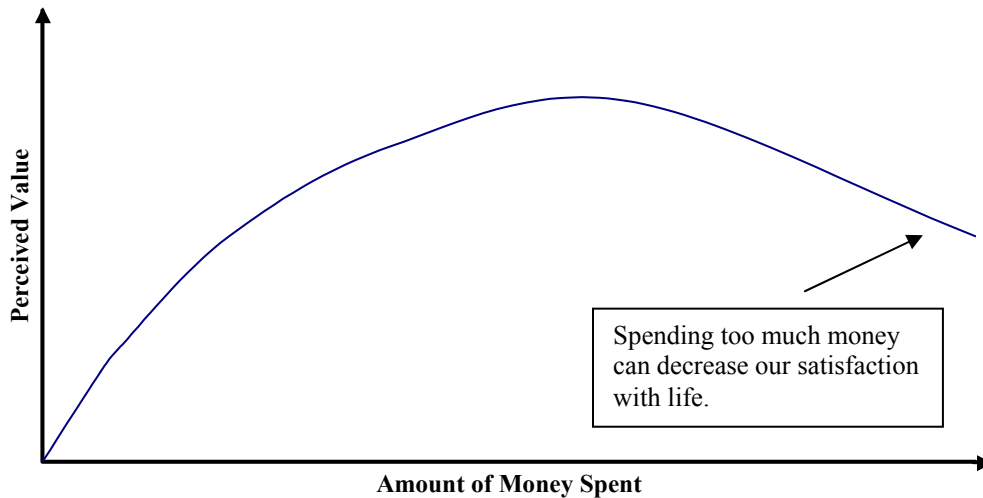
**Figure 18.3**

We're spending more money than before, but report only marginally more satisfaction with our diet.

Now suppose our benefactor gives us even more money, and encourages us to eat whatever we want. We can now afford to eat often at restaurants. If we don't feel like cooking, we get fast food. Twelve months later, we're 20 pounds over our ideal weight. Our clothes don't fit anymore. We get out of breath if we take a walk. We feel less energetic. We don't go to the beach anymore because we don't want others to see how much weight we've gained. We aren't as happy with our lives as before.

Once again, our economist friends would give us an analysis, as shown in Figure 18.4.

**Figure 18.4**



Now we're spending more money than before and enjoying it less.

What's the point of this exercise? Our commercial culture tells us that 'more is better,' but falling into that way of thinking is really a life trap. At some point with our expenditures, 'less is more.' The ideal place to be is *just enough*, somewhere between Figures 18.2 and 18.3.

At this stage in life, time has more utility for us than more stuff. If our spending habits make us work longer so we don't have much precious time, then we're living a deferred life.

My goal is to spend just enough on my basic living needs, some on the *pleasurable life* as discussed in *Live Long & Prosper!*, and then at that point shift my expenditures to the *good life* and *meaningful life*. If I could plot my perceived value, it would just keep on climbing!

To achieve this goal, it helps to ...

## Take Inventory

In Chapter 9 of *Live Long & Prosper!*, I identified the following major categories of our spending.

- Housing
- Food
- Transportation
- Utility bills
- Clothes
- Medical expenses
- Insurance
- Income taxes
- Children and grandchildren
- Leisure and recreation
- Donations and charity
- Miscellaneous supplies and stuff

I suggest that we take an inventory of what we spent on these items over the past year. Now I admit that some of us won't take the time to do this, but we might review the next few pages, take some ideas and just wing it. Others will get quite focused about preparing this inventory. As my teenage daughter would say, *'whatever!'*

First, I just made the list of my expenditures. In the next few pages, I'll provide more detailed lists that helped to remind me of all my expenses. Then, I reviewed the list, and separated them into the following six categories.

1. *Absolute bare living necessity* items.

2. *Living necessity items but I spent more than I need*, for additional pleasure or comfort. Here I entered just the excess over the absolute minimum, and entered my best guess on the minimum amount in the first category.
3. *Waste of money*. These can be items that we think we need or want, but they are really a complete waste of money. Examples can include paying too much for a basic necessity, items that we could do or make ourselves, things we thought we needed but really didn't, etc. Chapter 18 of *Live Long & Prosper!* identifies a few common sources of 'waste of money' expenditures.
4. *Pleasurable life item*. Examples include any item or activity that goes beyond basic living necessities and is spent on the *pleasurable life*, as discussed in Chapter 3 of *Live Long & Prosper!* This includes nice clothes more than *just enough*, car expenses more than *just enough*, vacations, entertainment, etc.
5. *Good life item*. As we discussed in Chapter 3 of *Live Long & Prosper!*, here we spend money on applying our strengths to work, love and raising children. Examples of expenses can include work-related education and credentials for ourselves, money spent getting to and from work, money spent on our loved ones for support and gifts, college education for our children, etc.
6. *Meaningful life item*. Here we spend money on causes and services greater than ourselves. Examples include donations to charity, money spent while giving our time and services to causes we believe in, etc.

The goal of this exercise is to help differentiate our true needs versus our wants, and to distinguish expenses which provide meaning and fulfillment versus expenses that don't. Most of us probably spend too much in the second, third and fourth categories. Obviously, as much as possible we'll want to eliminate the 'waste of money' category. Now don't get me wrong on the other items. I'm not advocating spending *nothing* on comfort and luxury items. If we have the resources to spend on these things, that's fine. The problem comes when we spend so much on these items that we don't spend enough on the *good life* and *meaningful life*, or if we are working so much to support our spending habits that we don't have time for the *good life* and the *meaningful life*.

In the pages that follow, there's the longer list of expenditures. The point here is to trigger our thinking about all the possible things we could spend money on. I entered them on a spreadsheet, itemized by the 6 categories listed above. A big piece of paper would do just as well. I estimated how much I spent each month, then multiplied by 12 to get my annual budget.

First, I prepared this inventory for the last full year, to see what I spent my money on. A lot of us can see the bulk of our expenditures by reviewing our checking accounts and credit card statements. Some of us might be really organized and use a program like Quicken or MSN Money.

Then, I prepared a *rest-of-life* budget, considering my new way of thinking about expenditures, reducing certain work-related costs, some items from the second, third and fourth categories, and budgeting for new activities and interests. I wanted to see if I could satisfy the  $I > E$  relationship, and have enough money to meet my basic living needs and pursue my interests and passions.

Here's the more complete list.

### **Housing**

- Mortgage payment
- Rent
- Repairs
- Property taxes
- Homeowners insurance
- Service maintenance, such as gardener, house cleaner, pool cleaner, etc.
- Miscellaneous supplies and equipment, such as light bulbs, toilet paper, cleaning supplies, etc.

### **Food and nutrition**

- Basic meals at home
- Snacks at home



- Entertaining friends at home
- Vitamins and supplements
- Basic meals at work
- Snacks at work
- Restaurants, entertainment
- Restaurants and fast food, while working or shopping
- Specialized foods and treats, such as alcohol, desserts, candy

### **Transportation**

- Car purchase (take purchase price, divided by number of years expected to own, or monthly car payment times 12)
- Car lease payments
- Gasoline
- Repairs and maintenance
- Car insurance
- Public transportation – subways, busses, etc.
- Taxis
- Car rentals
- Government license or vehicle registration fees
- Tolls and parking fees
- Bicycle repair, maintenance
- Airplane, train, other long distance costs

### **Utility bills**

- Electricity
- Phone
- Heating
- Water
- Garbage
- Sewer
- Cable
- Internet

- Other

### **Clothes**

- Basic living needs
- Clothing for work
- Clothing for fashion
- Recreational clothing
- Any other nonessential clothing and jewelry items

### **Medical expenses**

- Insurance premiums
- Deductibles, copayments, coinsurance
- Services not covered by insurance, such as acupuncture, psychotherapy, chiropractor, massage therapist, etc.
- Dentist bills
- Equipment such as braces, canes, walkers, eyeglasses, arch supports, etc.
- Nonprescription drugs such as pain relievers, cough syrup, etc.

### **Insurance not covered previously**

- Life insurance
- Long term care insurance
- Flight insurance
- Pet insurance
- Appliance insurance
- Specialized insurance, such as for cancer or to pay deductibles on other insurance

### **Taxes**

- Federal income taxes
- FICA taxes
- State income taxes

- Other local taxes

### **Children and grandchildren**

- Gifts
- Educational support
- Other support

### **Leisure and recreation**

- Vacations, resorts, retreats
- Sporting events
- Theater, concerts, movies, museums
- Hobbies
- Educational workshops, classes, lectures
- Books, magazines, newspapers
- Sport equipment
- Sport and exercise costs, such as entrance fees, club dues, lift tickets, etc.
- Tapes and CDs
- Electronic equipment
- Personal gifts (birthdays, Christmas, etc.)
- Mood alteration costs – tobacco, drugs, alcohol

### **Donations and charity**

- Church
- Charitable organizations
- Political causes

### **Miscellaneous supplies, costs and stuff**

- Dues to clubs or organizations
- Interest on credit cards and other personal loans
- Computer equipment

*Live Long & Prosper!* visits each of these categories, with ideas for making our expenditures more effective and efficient during our *rest-of-life*. They may not be useful for everybody, but you'll get a feeling for what I mean by getting the most value from our expenditures.

Finally, let's take a humorous look at ...

### **New car envy**

Here's another example of the value of *just enough*. Do we still need a big fancy car that is never more than a few years old? My strategy is to buy a car that has a great repair record, as measured by Consumers Reports and the JD Powers survey, and then hold onto it for 10 years. I did a quick spreadsheet analysis and determined that, compared to trading in my car every 5 years, this strategy will save me from \$25,000 to \$50,000 over my *rest-of-life*. This alone buys me well over one year's worth of *E*, which translates to one year's worth of freedom.

Let me share my experience with buying new cars, to illustrate my point. The last time I bought a new car, I felt younger, stronger, and smarter, I lost weight, and I got incredibly sexy, all as promised by the ads. Women swooned for me, and beautiful models in bikinis writhed on the hood when I parked the car in the driveway. However, once the car got a few scratches and dents, and it was beyond the warranty period, I sadly reverted to my old self, and the fickle models left to writhe on the new car of the guy down the street. To lure them back, I needed to buy an even bigger and more expensive car. Soon the guy down the street and I were in a mini version of mutually assured destruction – of our *rest-of-life* portfolios. I realized the transitory nature of this pleasurable experience, and my car simply became a means to get around town. So why spend a small fortune?

Here's another reason to own a car for 10 years. Near the end of the 10 years, the car insurance gets really cheap as the car's value declines. In fact, in the last year or two, I've found it's not worth it to insure for theft and collision. The premium savings are close to the worth of the car.

## Wrap-up

I didn't intend for this document or Chapter 18 in *Live Long & Prosper!* to be a complete treatise on saving money with our expenditures for our rest-of-life. My goal is to provide ideas, tools and information for balancing our *E* with our *I* in our later years. I focus on the larger costs, but there's a lot more that can be said on the subject.

One idea I hope comes through loud and clear is that we don't necessarily need to support our current lifestyle during our *rest-of-life*. In fact, it might not be the most healthy lifestyle for us, both physically and emotionally.

I admit that I had a little fun with some of the ideas and stories here, but that was just to illustrate some points. I'm not advocating that we become spendthrifts and don't have any fun during our *rest-of-life*. I am advocating that we be conscious and deliberate about our spending, such that it supports the life that gives us meaning and purpose. No more and no less!

Until now, many of us have let our culture and television define who we are through what we buy.

I buy, therefore I am.

I'm not going to beat up myself or anybody else about this. It could have been age-appropriate, but not any longer. Now that we're grown up, we don't need to impress anybody else – just ourselves! We'll define who we are, and we'll be conscious that the money we spend aligns with how we want to live our *rest-of-life*.

This document is intended to complement and reinforce the themes in *Live Long & Prosper!* I don't intend for it to make complete sense without reading the book.