
The Personal Budget

The basic purpose of a personal budget is to plan how an individual's money will be spent. Given limited financial resources, a budget is a method of managing personal cash flow, to meet current needs and save for the future.

Reasons to Prepare a Personal Budget

A planning tool: Correctly used, a personal budget can ensure that income and expenditures match, both in amount and timing. It can both spotlight potential cash-flow problems, and identify opportunities to make better use of current income.

A yardstick to measure progress: By comparing the planned budget against actual results, an individual can see if progress is being made toward meeting specific goals. This measuring process will often highlight areas where changes should be made.

Preparing a Personal Budget

Past income and expenditures: This initial step entails recording information on past cash flow, both income and spending. Ideally, a year's worth of data should be gathered, to even out the effect of seasonal variations. Paycheck stubs, check registers, cancelled checks, copies of paid bills and recent income tax returns are excellent sources of this information. An individual may also want to keep a daily spending diary for a short period of time.

Set goals: Clear goals should be set, with both specific dollar amounts and a realistic time frame for accomplishing each goal. A goal can be as simple and immediate as making ends meet each month, or as complex and long term as planning for retirement.

Maintain records: Perhaps the most difficult part of the budgeting process is consistently keeping adequate monthly records of income and expenditures.

Periodic review: A periodic review, comparing the planned budget with actual results, provides a means of measuring progress toward an individual's goals. The review will usually indicate if changes should be made, either in income, expenditures or both.

The Personal Budget

National Spending Patterns

How does your spending compare with these broad national budget averages?¹

	National Spending
Food	12.9%
Clothing and Services	3.0%
Housing	32.8%
Personal ²	23.8%
Medical	8.1%
Transportation	15.9%
Other	3.3%
Totals	100%

¹Source: Bureau of Labor Statistics, Consumer Expenditures 2018, September 10, 2019.

²

Personal includes personal insurance, pensions, personal care, education, entertainment, and cash contributions.

The Personal Budget Worksheet

Name: _____

Period covered - From: _____ To: _____

Item	Historical	Current Budget	Current Actual	Difference
Debt, savings and investment				
Credit and charge cards	\$ _____	\$ _____	\$ _____	\$ _____
Other installment loans	\$ _____	\$ _____	\$ _____	\$ _____
Education fund	\$ _____	\$ _____	\$ _____	\$ _____
Retirement	\$ _____	\$ _____	\$ _____	\$ _____
Other savings goals	\$ _____	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____	\$ _____
Total debt, savings, etc.:	\$ _____	\$ _____	\$ _____	\$ _____
Food				
Home consumption	\$ _____	\$ _____	\$ _____	\$ _____
Outside the home	\$ _____	\$ _____	\$ _____	\$ _____
Total food:	\$ _____	\$ _____	\$ _____	\$ _____
Clothing				
Clothing and shoes	\$ _____	\$ _____	\$ _____	\$ _____
Cleaning, laundry	\$ _____	\$ _____	\$ _____	\$ _____
Jewelry, watches, etc.	\$ _____	\$ _____	\$ _____	\$ _____
Total clothing:	\$ _____	\$ _____	\$ _____	\$ _____
Housing				
Rent or mortgage	\$ _____	\$ _____	\$ _____	\$ _____
Real estate taxes	\$ _____	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____	\$ _____
Furniture and furnishings	\$ _____	\$ _____	\$ _____	\$ _____
Appliances	\$ _____	\$ _____	\$ _____	\$ _____
Cleaning, repairs and maint.	\$ _____	\$ _____	\$ _____	\$ _____
Electricity, gas and heating	\$ _____	\$ _____	\$ _____	\$ _____
Water and sewer	\$ _____	\$ _____	\$ _____	\$ _____
Telephone, cable	\$ _____	\$ _____	\$ _____	\$ _____
Other housing	\$ _____	\$ _____	\$ _____	\$ _____
Total housing:	\$ _____	\$ _____	\$ _____	\$ _____
Totals for this page:	\$ _____	\$ _____	\$ _____	\$ _____

The Personal Budget Worksheet

Name: _____

Period covered - From: _____ To: _____

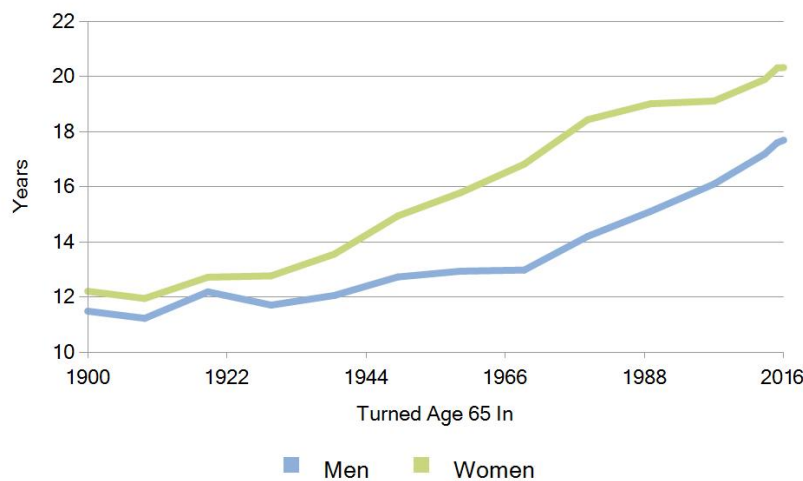
Item	Historical	Current Budget	Current Actual	Difference
Personal and Legal				
Personal care and toiletries	\$ _____	\$ _____	\$ _____	\$ _____
Child care	\$ _____	\$ _____	\$ _____	\$ _____
Legal and accounting	\$ _____	\$ _____	\$ _____	\$ _____
Life and disability insurance	\$ _____	\$ _____	\$ _____	\$ _____
Other personal and legal	\$ _____	\$ _____	\$ _____	\$ _____
Total personal and legal:	\$ _____	\$ _____	\$ _____	\$ _____
Medical				
Medicines	\$ _____	\$ _____	\$ _____	\$ _____
Doctors, dentists and hospitals	\$ _____	\$ _____	\$ _____	\$ _____
Health insurance	\$ _____	\$ _____	\$ _____	\$ _____
Other medical	\$ _____	\$ _____	\$ _____	\$ _____
Total medical:	\$ _____	\$ _____	\$ _____	\$ _____
Transportation				
Auto payments	\$ _____	\$ _____	\$ _____	\$ _____
Repairs and maintenance	\$ _____	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____	\$ _____
Gas, oil and tires	\$ _____	\$ _____	\$ _____	\$ _____
Public transportation	\$ _____	\$ _____	\$ _____	\$ _____
Other transportation	\$ _____	\$ _____	\$ _____	\$ _____
Total transportation:	\$ _____	\$ _____	\$ _____	\$ _____
Miscellaneous				
Books, magazines and newspapers	\$ _____	\$ _____	\$ _____	\$ _____
Vacations	\$ _____	\$ _____	\$ _____	\$ _____
Entertainment and clubs	\$ _____	\$ _____	\$ _____	\$ _____
Charitable	\$ _____	\$ _____	\$ _____	\$ _____
Education	\$ _____	\$ _____	\$ _____	\$ _____
Other miscellaneous	\$ _____	\$ _____	\$ _____	\$ _____
Total miscellaneous:	\$ _____	\$ _____	\$ _____	\$ _____
Totals for this page:	\$ _____	\$ _____	\$ _____	\$ _____
Totals from previous page:	\$ _____	\$ _____	\$ _____	\$ _____
Grand totals:	\$ _____	\$ _____	\$ _____	\$ _____

Average Life Expectancy at Age 65

While no one knows how long he or she will live, average life expectancy in the United States has been increasing. The tables and graph below show how the average number of years of life remaining at age 65 has increased since the turn of the 20th century.¹

Male		Female	
Turned Age 65 In	Average Years of Life Remaining	Turned Age 65 In	Average Years of Life Remaining
1909-1911	11.24	1909-1911	11.96
1919-1921	12.20	1919-1921	12.73
1929-1931	11.72	1929-1931	12.78
1939-1941	12.07	1939-1941	13.57
1949-1951	12.74	1949-1951	14.95
1959-1961	12.95	1959-1961	15.80
1969-1971	12.99	1969-1971	16.83
1979-1981	14.21	1979-1981	18.44
1989-1991	15.12	1989-1991	19.02
1999-2001	16.11	1999-2001	19.12
2017	18.04	2017	20.60

Average Remaining Life Expectancy At Age 65



¹Source: National Vital Statistics Reports, Volume 68, Number 7, United States Life Tables, 2017, Table 21. June 24, 2019.

Do You Desire “Retirement Peace of Mind?”

In December, 2012, a landmark study was launched to determine a national retirement peace of mind.¹ It included more than 6,000 respondents age 45 and older. It found that average Americans have a lot of challenges and a lot of expectations for their retirement years.

Retirement Expectations

Traditionally, many Americans have viewed retirement as a time of leisure. Today, more and more of us expect to work during our retirement years. Seven out of ten of those surveyed in the study said that their ideal plan for balancing work and leisure in retirement would be to include some work.

The reasons are not purely economic. Many Americans see retirement as a time for renewal and accomplishment. When asked if they would seek the same kind of work in retirement or pursue a different career, half of those surveyed said they would seek a different line of work.

A desire for more money and economic security was the most important reason for working in retirement according to a majority of the survey participants, but 48 percent said a desire for stimulation and satisfaction was their top reason for continuing to work during retirement.

When asked about their most important financial goal, 88 percent said they would like to save enough money to have financial peace of mind, versus 12% who said they would like to accumulate as much wealth as possible.

Retirement Challenges

The study also sought information on the greatest concerns facing those nearing retirement. Not surprisingly, in today’s complex economic and social climate, they found many complications that could make the task of retirement planning even more challenging.

Health problems: Americans are expected to live longer than ever before. When asked what concerned them about living a long life, 72% of those surveyed said they feared

¹“Americans’ Perspectives on New Retirement Realities and the Longevity Bonus, a 2013 Merrill Lynch Retirement Study, conducted in partnership with Age Wave.” © 2013 Bank of America; All rights reserved

Do You Desire “Retirement Peace of Mind?”

serious health problems, making it the top retirement worry. This compares with 47% who said they worried they would run out of the money they need to live a comfortable retirement.

There is good reason for concern. The study found that the top reason for early retirement given by those already retired was due to personal health problems. Fully 57% of study participants who had already retired reported they retired earlier than they had planned.

Caring for family members: More and more Americans today are left caring for others in their families: adult children, grandchildren, parents or in-laws, siblings. These Americans are often referred to as the “Sandwich Generation”, finding their own needs for saving and retirement security squeezed by the needs of others they love.

Among study participants aged 45 or older with children, over half said they expected to have to continue to provide support to adult children. More than a third expected to have to support grandchildren. Fewer said they expected to have to support parents (16%) or their siblings (10%).

The types of support they expected to provide included financial support (cash or loans), housing (sharing a home or helping pay for housing), education and healthcare. The study also found a relationship between income and expectations for providing support: participants with higher incomes were two times more likely to say they expected to provide support to their adult children, grandchildren and parents than those with lower incomes.

Do You Have “Retirement Peace of Mind?”

The study tried to determine how close participants were to achieving retirement peace of mind by asking them to respond to these survey questions:

Question
• I feel content and comfortable about how I will spend my retirement years.
• I have many worries about what might happen during my retirement.
• Thinking about my retirement gives me feelings of security and stability.
• I feel anxious and uneasy about how I will support myself and my family during retirement.
• I feel well prepared for whatever may happen during my retirement.

Do You Desire “Retirement Peace of Mind?”

The study found that participants had an average score of 5.3, based on a scale of 1 to 10, or slightly above average. Scores varied, though, by gender, the amount of savings, and if the participant worked with a financial professional.

- Men were more likely than women to have retirement peace of mind. The average score for male participants was 5.6 while female participants averaged 5.0.
- Participants with \$500,000 or more in investable savings averaged a score of 7.5 while those with under \$250,000 in investable savings averaged 4.8.
- Participants who worked with a financial professional at the time of the study had an average score of 6.3, while those who did not work with a financial professional had a score of 4.7.

How Can You Improve Your Retirement Peace of Mind?

The results of the national study suggest several steps you can take today to improve your peace of mind during retirement:

What is your most important financial goal? Are you like the 88 percent who said they would like to save enough money to have financial peace of mind? Or, are you more like the 12% who said they would like to accumulate as much wealth as possible? The answer may help determine your retirement savings and investment strategy.

Do you intend to work during retirement? Will you stay in the same line of work, or start a new career... maybe even a business of your own? If you do intend to work, it could affect the Social Security benefits for which you qualify. You will want to research the impact carefully.

What will you do for personal satisfaction? While a desire for more income and security was the top reason for working in retirement, almost half of the study participants said they intended to do so for personal stimulation and satisfaction. What will you do for stimulation and satisfaction? Do you wish to travel? Start a new career? Volunteer in your community? Whatever your choices, look carefully to see how they may affect your retirement savings goals. Do you need to save money to start a business? To complete a college education? To travel?

Are you prepared for any personal healthcare issues that could arise? Problems with personal health lead more people to retire earlier than planned more than any other cause.

Do You Desire “Retirement Peace of Mind?”

Do you understand your medical care and long-term care options? Does your employer offer extended healthcare benefits to retirees or will you be required to provide your own? Is disability insurance appropriate for your situation?

Do you have any other family obligations to consider? More and more retirees today find they must continue to provide financial support for their adult children, grandchildren, parents or siblings. Are you supporting family members today? Do you intend to support family members during retirement? How is supporting family today affecting your ability to save for retirement? Are there other strategies you should consider? Is life insurance something you should consider to help care for survivors or heirs?

Would you benefit from professional financial advice? Participants in the nation-wide study reported overall higher levels of retirement peace of mind when they worked with a financial professional. Would discussing your retirement goals and challenges with a professional help you?

Whatever your expectations for retirement, like all important things in life, it pays to have a plan to achieve them and to regularly measure your progress towards your goals.

The Need for Retirement Planning

For much of the 20th century, retirement in America was traditionally defined in terms of its relationship to participation in the active work force. An individual would work full-time until a certain age, and then leave employment to spend a few years quietly rocking on the front porch. Declining health often made retirement short and unpleasant. Retirement planning, as such, typically focused on saving enough to guarantee minimal survival for a relatively brief period of time.



More recently, however, many individuals are beginning to recognize that for a number of reasons, this traditional view of retirement is no longer accurate. Some individuals, for example, are voluntarily choosing to retire early, in their 40s or 50s. Others, because they enjoy working, choose to remain employed well past the traditional retirement age of 65. And, many retirees do more than just rock on the front porch. Retirement is now often defined by activities such as travel, returning to school, volunteer work, or the pursuit of favorite hobbies or sports.

This changed the face of retirement, however, with all of its possibilities, does not happen automatically. Many of the issues associated with retirement, such as ill health, and the need to provide income, still exist. With proper planning, however, these needs can be met.

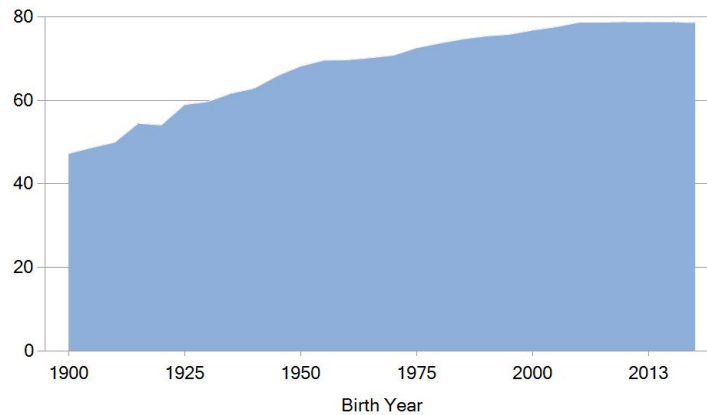
Longer Lives

The single most important factor in this changed retirement picture is the fact that we now live much longer than before. A child born in 1900, for example, had an average life expectancy of 47.3 years. For a child born in 2017, however, average life expectancy had increased to 78.6 years. The following graph¹ illustrates this change.

¹Source: National Vital Statistics Reports, Volume 68, Number 7 – United States Life Tables, 2017, Table 19. June 24, 2019.

The Need for Retirement Planning

Average U.S. Life Expectancy (1900 – 2017)



Common Retirement Planning Issues

Planning for a much longer life span involves addressing problems not faced by earlier generations. Some of the key issues include the following:

Paying for retirement: Providing a steady income is often the key problem involved in retirement planning. Longer life spans raise the issue of the impact of inflation on fixed dollar payments, as well as the possibility of outliving accumulated personal savings. Social Security retirement benefits and income from employer-sponsored retirement plans typically provide only a portion of the total income required. If income is insufficient, a retiree may be forced to either continue working, or face a reduced standard of living.

Health care: The health benefits provided through the federal government's Medicare program are generally considered to be only a foundation. Often a supplemental Medigap policy is needed, as is a long-term care policy, to provide needed benefits not available through Medicare. Health care planning should also consider a health care proxy, allowing someone else to make medical decisions when an individual is temporarily incapacitated, as well as a living will that expresses an individual's wishes when no hope of recovery is possible.

Estate planning: Retirement planning inevitably must consider what happens to an individual's assets after retirement is over. Estate planning should ensure not only that assets are

The Need for Retirement Planning

transferred to the individuals or organizations chosen by the owner, but also that the transfer is done with the least amount of tax.

Housing: This question involves not only the size and type of home (condo, house, shared housing, assisted living), but also its location. Such factors as climate and proximity to close family members and medical care are often important. Completely paying off a home loan can reduce monthly income needs. A reverse mortgage may provide additional monthly income.

Lifestyle: Some individuals, accustomed to a busy work life, find it difficult to enjoy the freedom offered by retirement. Planning ahead can make this transition easier.

Seek Professional Guidance

Developing a successful retirement plan involves carefully considering a wide range of issues and potential problems. Finding solutions to these questions often requires both personal education and the guidance of knowledgeable individuals, from many professional disciplines. The key is to begin planning as early as possible.

Inflation

The consumer price index is the government's statistical measure of the changes in prices of goods and services. It is commonly used to measure the rate of inflation.

Year	Index	Percent Change	Purchasing Power of the Dollar
1967	100.0	0.0%	\$1.00
1968	104.2	4.2%	\$0.96
1969	109.8	5.4%	\$0.91
1970	116.3	5.9%	\$0.86
1971	121.3	4.3%	\$0.82
1972	125.3	3.3%	\$0.80
1973	133.1	6.2%	\$0.75
1974	147.7	11.0%	\$0.68
1975	161.2	9.1%	\$0.62
1976	170.5	5.8%	\$0.59
1977	181.5	6.5%	\$0.55
1978	195.3	7.6%	\$0.51
1979	217.7	11.5%	\$0.46
1980	247.0	13.5%	\$0.40
1981	272.3	10.2%	\$0.37
1982	288.6	6.0%	\$0.35
1983	297.4	3.0%	\$0.34
1984	307.6	3.4%	\$0.33
1985	318.5	3.5%	\$0.31
1986	323.4	1.5%	\$0.31
1987	335.0	3.6%	\$0.30
1988	348.4	4.0%	\$0.29
1989	365.2	4.8%	\$0.27
1990	384.4	5.3%	\$0.26
1991	399.9	4.0%	\$0.25

Inflation

Year	Index	Percent Change	Purchasing Power of the Dollar
1992	411.5	2.9%	\$0.24
1993	423.1	2.8%	\$0.24
1994	433.8	2.5%	\$0.23
1995	446.1	2.8%	\$0.22
1996	459.1	2.9%	\$0.22
1997	469.3	2.2%	\$0.21
1998	475.6	1.3%	\$0.21
1999	486.2	2.2%	\$0.21
2000	503.1	3.5%	\$0.20
2001	516.8	2.7%	\$0.19
2002	523.9	1.4%	\$0.19
2003	535.6	2.2%	\$0.19
2004	549.5	2.6%	\$0.18
2005	568.9	3.5%	\$0.18
2006	587.2	3.2%	\$0.17
2007	604.0	2.9%	\$0.17
2008	628.7	4.1%	\$0.16
2009	624.4	-0.7%	\$0.16
2010	637.3	2.1%	\$0.16
2011	660.0	3.6%	\$0.15
2012	673.9	2.1%	\$0.15
2013	683.1	1.4%	\$0.15
2014	693.4	1.5%	\$0.14
2015	690.5	-0.4%	\$0.14
2016	697.2	1.0%	\$0.14
2017	712.1	2.1%	\$0.14
2018	730.2	2.5%	\$0.14
2019	746.0	2.2%	\$0.13

Source: U.S. Bureau of Labor Statistics, Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W): U.S. City Average, by expenditure category and commodity and service group. Purchasing power of the dollar is rounded off to the nearest cent.