I'm Not Flipping Burgers when I'm 70

Comprehensive Personal Finance Education
for Budgeting and Home Ownership

Introduction

When one driver pulls up to another at a stoplight and sees a new Mercedes the typical thought is . . . that person “has money.” More than likely it is true, however it may not be. Another individual at the stoplight may be driving a car that is 15 years old and may also have money and perhaps more than the Mercedes driver. Lastly, both drivers may have “no money.” The value of items that someone owns is only a perception of what they can afford. So what does it mean to have money? Culture says it is a person that earns money beyond the middle class or the bulk of the population meaning at minimal, affluent. With that determination affluent means abundant, however in the world of income earners it does not have a class. If an individual earns $150,000 per year, that may be perceived as affluent to someone who earns $40,000. Relatively speaking for the past 20 years the mark for an income earner to be able to afford larger houses, more expensive cars and can travel abroad, has been $100,000. In the same 20-year period the number of people earning $250,000 along with millionaires has increased significantly yet the gap between the rich and the middle class has widened.

For the 2015 tax year, the Internal Revenue Service says to be considered in the top 1% of earners, one’s adjusted gross income or AGI (gross income minus reductions) has to be $428,713. According to data for the 2015 tax year from the Tax Policy Center, the top 20% of earners pay the majority of taxes at 87%. This is an outstanding number and shows the disparity between the rich and the lower to middle class. However, with the disparity between rich and middle class, what they have in common is that they all have to budget their money.

The word budget by definition is one’s income versus the expenses whereby in a given time period the income is used up by the expenses leaving a zero balance. What this means is that for all items not just mandatory and chosen expenses and free spending money but also savings and investments, they should deplete the pool of money. Budgeting has a stigma meaning to be “cheap” but all of society has income and expenses whether they technically follow a budget or not. For example, the GE’s, Coke’s and the Microsoft’s have borrowed money to run their businesses and consequently they budget the money to pay items off which includes investing in their companies and shareholders.

The bottom line is that no one is exempt from budgeting regardless of income. As a matter of reference in a 2009 report by Sports Illustrated stated that two years after retirement 78% of NFL players have gone bankrupt and within five years of retirement 60% of NBA players fall to the same result. Regardless if someone earns $50,000 or $1,000,000 each year if there are more expenses coming out than what the income can support then he or she is not within budget. The American way has been to buy now and pay later saddling the masses of the population with little or no net worth.

The core principal with budgeting is not to simply spend all of the available cash each month but to plan for the future. This future for most Americans is the dream of homeownership and the ability to have the same lifestyle in the working years as they will have in their retirement. To achieve this, every person has to treat the budget as a business to meet goals with ample funds to achieve homeownership (where the home is technically paid off) while saving for future goals and unforeseen items in daily living while setting aside funds for retirement planning. Without

proper planning, at some point in a person's life the propensity exists for people to run out of money to pay for everyday living especially in circumstances where people are in retirement.

Budgeting is all based on a matter of choice of how and where money is allocated by each item contained within it. As homeownership is the major goal in the budget it is also the most critical and largest asset. For example, a person making $250,000 a year could buy a $150,000 home rather than a $500,000 home lessening the cost burden. For 30 years at 5% the monthly payment for the $500,000 home is $2,864.11 versus $805.23 for the $150,000 home. If the budgeter chose to take the difference between the two payments ($2,058.88) and apply it to the $150,000 home it would be paid off in five years.

Another important aspect are savings accounts that require a regular stipend to pay for unforeseen items such as the dishwasher breaking or simply cash put away to use in case of a job loss or a reduced income scenario. The goal is to take into account all possible scenarios where spending will occur on a monthly basis through the course of a yearly cycle and for future items that could occur. This method keeps the monthly budget at a consistent fixed amount to mitigate spikes in income above or below the predicted amounts. This fosters a consistent income versus expenses scenario each month. This creates a constancy to plan for the future while reducing the pressure with everyday living. If the plan in the budget plan was not developed to account for savings and investments people may not be able to retire comfortably or at all at some point in life. In reality, a person can spend an entire life with little or no debt by accounting for all expenses yet reach retirement age little or no savings.

In order to create savings and retirement income it is either accomplished through pretax accounts such as a 401k through an employer account or after tax plans such as Roth IRA. (Social Security should not be valued as the only source for retirement) These savings vehicles have to be treated as an expense where it is paid and forgotten about in that it they are untouchable funds. The more one can put away the better as it is extremely difficult to amass enough funds to live exactly the same way as the last year's salary prior to retirement for the remaining years of life. For example, a person who averages a $40,000 salary and put 10% away for 40 years, without interest or inflation it would generate $160,000 of savings which is only four times the annual salary. For this reason it is imperative for people to live within their means while putting as much money as possible to plan for eventual retirement.

I'm Not Flipping Burgers When I'm 70 pokes fun at the premise that someone during their golden years of life should not have to be working. There is nothing wrong with working at any age however, if someone chose to work they would rather be left with the choice of not having to work to maintain a living.

Jasper

The premise of this textbook is to walk through the personal finance decision making process that Jasper Jamison. He is a 28-year old man who is working his first job post college. Although he has previously earned an income he has not budgeted and desires to be structured for the days going forward. He's a single father renting an apartment and has five-year old son that is in day care while he works. Jasper's goal is to set up a three-year budget plan that includes savings and investing vehicles for the present and future along with his quest to purchase his first home.