

Spending Differences between high and low

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There are many issues to cover when talking to people about financial planning issues, but one that crops up more frequently than others is “How much money do people need to live on in retirement?”

It is a good question and absolutely central to the retirement plan, but the answer will be different for every household, because people do not choose to live the same way.

I often hear people say “I’m quite frugal with my spending”. Yet when I look more closely their expenditure for general living is \$100,000+ per annum. They genuinely feel that their spending habits are modest. But that is not how someone who manages to live on \$36,000 per annum would see it. They would, in fact, see this type of lifestyle as quite extravagant.

The difference in the main is the lifestyle choice between the two groups, and this crosses the entire spending spectrum. Typically the higher income group will spend more on housing, repairs and maintenance, rates, power, phone and food amongst other expense categories.

The area of discretionary spending also differs markedly. The table shows a rough guide to possible differences between the two groups.

Spending Category	Modest income spending	Higher income spending
Holidays	Occasional and within NZ or Australia	More often, more expensive and including far-flung destinations
Clothing	Chain store purchases	Designer boutiques
Personal	Regular hair care and personal maintenance	The works – pedicures, manicures, massages etc
Entertainment	Some dining out with occasional splurges	Frequent dining/entertaining out or if at home more lavish
Alcohol	Maybe some	More expensive wines/liquor and/or more often
Present giving	Considered value	More extravagant, more regular

Then, of course, there is the difference in lifestyle assets. Those on the lower income will likely have a modest dwelling and car(s) and few “toys”, whereas those on a high income will more than likely drive a late-model, higher-specked car and live in a more expensive suburb. They are more likely to have a holiday home, perhaps a boat and more “toys”.

But having a balance sheet weighted heavily towards lifestyle assets is not necessarily going to make for a good retirement.

It is so easy to adjust higher spending as income increases. Typically people spend what they earn unless they have put in a savings program of some type to take out some of the surplus before it gets absorbed into general living costs. And it is so easy to spend, as we have so many more choices available now, even compared to a decade ago.

For example, the proliferation of cafés means we are tempted to drop in and spend – buy a coffee or two, perhaps some food. Most people do not want to change this type of behaviour.

My answer to the retirement income question is “Generally, you will need in retirement about what you are spending now”. It is important to accept expenditure at whatever level it is at (assuming you can manage it) because people do not like to reduce their standard of living, especially in retirement.

It is what has been accumulated in the investment asset column that is going to help fund the same good lifestyle expenditure in retirement. To have that requires a plan, focus and discipline.

It is not rocket science yet so few people get it right. But whether the desired lifestyle is modest or more lavish planning for it does work.