There are four fundamental interconnected financial behaviors that can determine your ability to achieve your targeted retirement outcome: Earning, Spending, Investing and Insuring (ESII).™ As life events shift and alter your course, you must continually reprioritize and balance these behaviors while maintaining a focus on your retirement target. Use this framework to develop financial plans and course-correct as your life inevitably changes.

In this paper, we discuss the Spending behavior and how it has a critical impact on retirement success.

Well-disciplined spending continues to be an issue for many people. According to a 2015 Gallup report, American spending has stabilized over the last few years, but it is still higher than it was during the financial crisis.

Thirty-nine percent of Americans polled said they are “spending less money,” which is similar to percentages in 2014, 2013 and 2012. However, that is down sharply from the 57% who said they were “spending less money” in 2010 when the country was emerging from the recession.

It is clear that many individuals still struggle with poor spending habits, and the best way to improve this is through a budget. While there are countless apps, programs and tools available to help you manage your money, the basic premise to budgeting is the same: balance your monthly income and expenses. If expenses exceed your income, reducing your expenses or increasing your income, or some of both, is necessary. It is crucial to stick to a budgeting formula to effectively pay down debt and create savings for retirement investment.
The Average American Spends $20 a Week on Coffee*

But if a 30-year-old puts that coffee money into savings, by the time that person retires, the amount deposited would be nearly $40,000; invest at a hypothetical 7% rate of return and the amount becomes approximately $200,000.

*According to Oleg Urminsky, marketing professor at The University of Chicago Booth School of Business, Capital Ideas, “Your Coffee Habit Is Costing You” video, Oleg Urminsky, May 1, 2015.

The Three Methods That Can Help You Keep Spending on Track

1. **Paying with Cash**

   Using cash makes you more conscious of your spending and more inclined to break bad money habits. Credit and debit cards and even checks make it easy to lose sight of where your money is actually going. Use of all three should be limited and a cash lump sum should be withdrawn weekly to cover your expenses. Using ATMs that are not affiliated with your bank should also be limited to avoid fees.

2. **Delaying Purchases**

   Waiting 20 minutes to three days before making a purchase curtails impulse buying and cultivates better money management practices.

3. **Logging Every Purchase Every Day for One Month in a Notebook...**

   …and categorizing the purchases as either necessary or discretionary. At the end of the month, you should add up each category to see where the money is actually going and identify areas where spending can be reduced.
Develop Healthy Habits on Budgeting and Prioritization

Life entails many goals, from short- to long-term. But they cannot all be achieved at once, nor would that be ideal. Nonetheless, it is important to prioritize them. Obviously food and shelter are fundamental needs and, when lacking, become top priority. Wealth transfer is an end-of-life goal. To start, these goals can generally be organized within a hierarchy as illustrated in the pyramid to the right.

Once the goals are determined, develop a budget that balances earnings against spending and investment contributions.

It’s important to find the right balance between short- and long-term goals.

For illustrative purposes only. Everyone will have his or her own set and ranking of priorities. Priorities will change over time.
Debt: The Good and the Bad

Savvy consumers understand there is good debt and bad debt. Good debt, also known as investment debt, helps build wealth in the long-term. Bad debt simply makes you poorer.

Student loans are considered to be good debt because they can lead to greater future income. Home loans are also good debt because they provide housing for years to come, lock in the cost of housing at today’s cost of living, and allow most homebuyers to deduct mortgage interest, which effectively lowers the cost of payments.

Bad debt is incurred when a purchase is unaffordable today and doesn’t yield long-term benefits. For example, a typical credit card has interest rates around 21%. If you buy the latest $1,200 gadget with a credit card, making $100 monthly payments, the total cost will become $1,440. However, if you buy the gadget with cash, the $240 in interest that would have gone to the credit card company could be invested. A hypothetical investment of that $240 earning a 7% annual return, could earn $970 over 20 years. Generally speaking, it is best to get bad debt under control before turning one’s attention toward investing because the cost of it typically is much greater than any returns you could earn through investing.

Spending Guidelines for Every Age

The 20s
- During these years, many young people are on their own and making money. The temptation is strong to buy the new car, rent the expensive apartment and spend freely on entertainment.
- It is important that you pay yourself first by setting aside 10% or more of every paycheck for the future. The remaining 90% can then be used for the budget.

The 30s
- At this time, buying a house and raising children compete for investment dollars.
- It is important that you maintain your saving/investing discipline by paying yourself first, then use the remaining income for big expenses.

The 40s
- Children’s college education expenses kick in. You may be tempted to sacrifice your future retirement by diverting contributions toward education.
- Your IRA and assets in your employer’s retirement plan are not included in student federal financial aid calculations, making it one more reason to fund retirement accounts.
- It is also important to note that while students can get loans for tuition, adults cannot get loans for retirement.

The 50s
- The nest may be empty and the expense of college education is done.
- You may be tempted to spend on yourself. Rewards are necessary in the budgeting process, but too many of them can deplete savings and derail your desired retirement outcome.
- Former tuition payments and other additional funds should be redirected to your retirement investments.

The 60s
- In these transition years, individuals want to be even more disciplined with their spending.
- Just prior to retirement you should consider reallocating to a safer or less volatile portfolio.
- During retirement, spending should be watched closely to balance your expenses and income.

The 70s
- During this period, you have a better idea of your expenses and income.
- This is the time for you to enjoy your retirement but still maintain a watchful eye over your spending to stretch retirement dollars into the 90s and beyond.

This information is general in nature and not intended to constitute tax or estate-planning advice. Please consult your tax or estate-planning advisor for more detailed information on these issues and advice on your specific situation.

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