Five expenses that will consume 50 per cent of your lifetime earnings

In these recessionary times, financial tips are flowing fast and furious about how to save money and stick to a budget. Facing a sea of information, many people are asking, “Where do I start?” For most of us, five areas of spending will consume over 50% of the money we earn during our lifetime, so that’s the best place to begin.

The five areas are: Home, car, children, education and retirement. Here’s what you need to know about each:

* Don’t bite off more **HOME** than you can chew. How much house can you comfortably afford? For most people the answer is a house with a purchase price of no more than 3x their annual household income. Rationale: the cost of a home includes much more than the monthly mortgage payment. It’s also property tax, insurance, upkeep, etc. Typically these costs run 2%-3% of the price of your home each year. Assuming a 20% down payment, a 30-year fixed rate mortgage, and interest rates in the 5%-6% rate, the 3x your income rule of thumb will translate into total housing costs of roughly 30% of your gross income.

* Don’t let your **CAR** drive you to the poor house. The same logic applies to your car. Most people can comfortably afford a car that is one-third of their annual income. If you make $60,000 you can comfortably afford a car that costs $20,000. If that seems low – now you know why so many people are in financial trouble. They are driving it. A car has many other costs than simply the monthly payment. There’s insurance, gas, parking, maintenance, etc. If you follow this rule of thumb, your total transportation costs should be 10% or less of your gross income.

* Don’t let your **KIDS** kick you in the wallet. Kids are expensive. From a purely clinical standpoint the Dept. of Agriculture estimates it will cost $220,000 to raise a child born in 2008 from diapers to age 18. And that figure is before you add in the cost of college or university! Deciding to be a parent is a major financial obligation. Don’t make it worse by over-indulging your love bundles.

* Don’t forget to ask “How high is too high for higher **EDUCATION**?” It used to be good debt was defined as mortgage and student loan debt… and bad debt was everything else. Not any more. We’ve now learned that too much of a good thing can indeed be bad. Rough rule of thumb, don’t take on more in total education debt than you think you are going to earn on average annually during your first 10 years after graduating (from college/university or grad school). In plain English, if you think you’ll make $50,000 a year, don’t take out more than $50,000 in loans. The logic behind this is that if it takes you more than 10

years of paying 10% of your income a year in student loan repayments, it’s going to be tough to meet your other financial obligations.

* Don’t underestimate the need to feed your **RETIREMENT** nest egg. How much will you need to retire? A simple rule of thumb is to multiply your current income by 25. So if you make $50,000 a year and want to maintain that standard of living in retirement, you’ll need a nest egg of at least $1,250,000. Understanding early on in your working life what “your number” is… will help you see just how important it is to plan for this major savings goal.