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Do you have your retirement tribe's spending profile?

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Yesterday, Wealth Mentor Jackson Millan revealed the reasons why some people's spending styles hold them back from accumulating substantial savings.

Today, he explains why members of the different YourLifeChoices retirement tribes might struggle to save if they fit into the spender profiles that he identified.

"Everyone knows they should budget, but they don't know why they should budget," Mr Millan told YourLifeChoices.

"Those about to retire or in early retirement must come to grips with what their lifestyle costs now and whether they expect this reality to continue for their foreseeable future."

The different spending personalities Mr Millan uses to illustrate how his clients can repair their savings strategy are: the Cash Stasher, Cash Splasher, Cash Makes Me Happier, Chicken Little Investor, Points Accumulator, the Ignorer and the Midas.

After cross-referencing these spending styles with the YLC retirement tribes, this is Mr Millan's conclusion on what holds people back from saving more money:

Affluent retirees – Cash Splashers in this tribe are comfortable to spend up big because of their substantial nest eggs. They enjoy retail therapy but they do not plan for big expenses, such as a holiday or a new car. When they haven't factored their penchant for big ticket items into their plan, they can become unstuck later in retirement, especially if they experience a major medical headache.

This tribe may also display the Midas personality where they believe they will never run out of money. This type of weakness can lead to a nasty surprise the day their credit card is rejected at the terminal. No matter how wealthy you are, a spending plan is vital to avoid running out of money.

Constrained retirees – some people in this tribe can also be guilty of being Cash Splashers. Perhaps early in their retirement they will use up a significant part of their savings without paying attention to future financial considerations. Sometimes they will suffer from the Chicken Little complex, where they are too afraid to invest and believe that there will always be just enough money to meet their needs; when, as is often the case, an unexpected major expense crops up later in life and they find they do not have the means to pay for it.

Cash-strapped retirees – this group is definitely susceptible to the Chicken Little mentality. They may believe they do not have enough resources to make an extra quid, or perhaps they were burned by the Global Financial Crisis eating away at their savings. They become risk averse out of fear that they will lose everything again. This tribe has little faith that they can save and as such, may slip into becoming Ignorers.

Ignorers avoid opening bills, and often accumulate more debt by paying one credit card balance with another credit card. They ignore their financial situation and instead distract themselves so they don't have to think too hard about money. The reality that they don't have much of a cash-flow is too daunting to contemplate.

Mr Millan believes anyone can change their spending personality by following an easy process: essentially, if you don't measure how you splash your cash, you will not see it. So he asks clients to become their own spending detectives.

"I encourage all my clients to do a personal profit and loss (P&L) statement to familiarise themselves with their spending habits and guide them to be able to afford the lifestyle they want in retirement," he says.

"A P&L needs to document all the incomings and outgoings, and hopefully produce a bottom line that is in surplus.

"For instance, I have a client who is on an allocated pension and draws $1000 a week to live on. His expenses come to just $900, so he has a margin of $100, which he can return to his savings if he wishes.

"However, if that client had $1100 worth of expenses on a regular basis each week, then his budget would be in deficit to the tune of $100 each time.

"In this scenario, I get them to understand the long-term implications of not balancing the P&L. Unless they want to cut back on spending, I advise them to look for additional income, such as one day of paid work."

Ensuring that savings last in retirement means looking ahead at potential future scenarios. Mr Millan says he guides his clients' planning process by insisting they ask themselves three questions:

- What is fundamentally important to you?
- What are your goals, dreams and aspirations?
- What is the significance of these goals, dreams and aspirations to you?

With detailed answers to these questions, Mr Millan says drawing up a plan becomes easier and the journey to accumulating savings for a rainy day is off to a good start.

Mr Millan is the author of *Enjoy the Journey: Creating Wealth and Living the Life You Desire*.

Are you aware of any bad spending habits that you would like to change? Do you know exactly where your money goes each week?

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