

Lesson 3

Study Questions and Action Steps

In this lesson, you've learned that **Time** and **Consistency** are essential to building a sizeable nest egg for retirement:

1. **Time:** It's possible to set aside a generous amount of money if you invest **over a number of years**.
2. **Consistency:** In order to build a sizeable sum, you must put away a set amount **on a regular basis**.

Study Questions

Question 3.1

Many people don't start putting money aside for retirement until they are in their 50s and 60s. Why is this a mistake?

Question 3.2

At what age *should* a person begin putting money aside for retirement?

Question 3.3

Sarah always invests any "unexpected" income she receives. Last year, for example, she received a \$1,500 bonus from her employer because the company had had a good year. In addition she inherited \$10,000 when her Uncle Louis died. Sarah promptly put all of that unexpected income into a high-yield investment account. Sarah's friend Lorraine, on the other hand, puts \$50 out of every single paycheck into a high yield invest account. Which of these people is investing **consistently** as described in Lesson 3? Explain your answer.

Your Next Steps

In Lesson 1, your assignment was to begin keeping track of your household expenses. Hopefully, you have been doing that and you have some fairly accurate information about your household expenses.

In Lesson 2, you were introduced to the *Budget and Savings Planner*, which has been designed to help you prepare your goals and create a budget to meet your goals. You should have completed **Attachment 1—The Goal Setting Planner** and **Attachment 2—The Networth Schedule** at the conclusion of Lesson 2. Now it's time to complete the remainder of the *Budget and Savings Planner*. We have provided a paper version of it, but you can also download an interactive version of it [here](#).

Action Step 3.1 Record Your Expenses

Open the *Budget and Savings Planner* and take a look at **Attachment 3 – The Expense Summary**. This is where you will record your monthly expenses. Notice that **Attachment 3** has three parts:

- Account 1—Fixed Living Expenses
- Account 2—Monthly Variable Living Expenses
- Account 3—Variable Living Expenses

Let's go through each of these parts of Attachment 3 one at a time.

Account 1 is where you record your **Fixed Living Expenses**. Fixed living expenses are those expenses you pay every month and whose amounts never vary from month to month. Your fixed living expenses are likely to include auto insurance and rent, as well as payments you make for subscription television and Internet service. Record fixed expenses such as these on lines 5-22 of the Account 1 sheet. Be sure to write in any fixed expenses which are not listed.

Notice that lines 18-22 are reserved for fixed expenses that are repayments on some kind of loan or debt. Examples include your home loan payments, car loan payments, and repayments on personal loans. These kinds of fixed expenses are separated out because they can be paid off and eventually eliminated. In addition, as your financial situation improves and you are able to pay cash for your purchases, these kinds of fixed expenses can be avoided altogether.

Account 2 is where you will record your **Monthly Variable Expenses**. These are expenses you pay on a monthly basis, but whose amounts differ each month, including such things as utilities and mobile phone service. Record your monthly variable expenses on lines 39-50.

Account 3 is where you will record your **Weekly Variable Expenses**—those items you typically pay for weekly or even daily, but whose amounts are never exactly the same. An example of this might be groceries.

For all three accounts, after you record how much you are spending weekly or monthly, be sure to multiply across and to estimate how much you are spending on each item every month and every year.

Action Step 3.2

Record Your Income

Take a look at *Attachment 4* in the *Budget and Savings Planner*, the *Income Summary*. Record all of your sources of income, and multiply across to show your income per month and per year.

Action Step 3.3

Determine Your Financial Position

The final step for this lesson is to complete Attachment 5—**The Financial Position Summary**. Attachment 5 allows you to record the totals from the previous attachments. Record your total annual income and your total weekly income in the *Income* section on the chart. Record your total annual expenses and total weekly expenses in the *Expenses* section of the chart. Subtract your total expenses from your total income to arrive at your *financial position*.

If your total income is **greater than** your total expenses, it means that you take in more than you spend. There are probably ways you can reduce your spending so that you can save more, but at least you are living within your means.

If your total income is **less than** your total expenses, you have a great deal of work to do. You will have to immediately begin cutting expenses as well as paying off loans in order to improve your financial position. Your goal is to get to a point where your expenses are significantly less than your income so you can begin investing a generous amount on a consistent basis for your retirement.