

RetireReady

5 Positive Financial Habits to Adopt Today

1 Create a Budget

As a first step, it's critical to determine how much money you have to work with each month and what you spend it on. Then, devise a budget based on those factors.

Writing down your monthly expenses—or entering them into a spreadsheet or budgeting app—will clarify what your monthly income actually pays for.

Being able to decipher needs from wants is important. Needs are essential expenses, such as housing, food, utilities, and transportation. If you couldn't pay for those, you would be in a serious bind! Wants are \$7 gourmet lattes, frequent streaming purchases, or vacations at luxury resorts that you could forgo.

Determining what you really need versus what you merely want takes discipline, but it's a key attribute of effective saving. You may be surprised at how quickly the cost of nonessential items adds up! And seeing those expenses on paper creates the accountability and motivation you need to commit to getting serious about a budget.

[Here are some key categories when doing a budget.](#) There may be a few in here you overlooked during your budget creation. [We've attached a budget worksheet for your convenience.](#)

2 Understand the Reality of Future Health Care Expenses

Having a realistic estimate of the health-related costs you may incur during your retirement years is an important item to cross off your preretirement planning list. Why? Because out-of-pocket health care expenses can eat into your retirement savings or, even worse, stunt your efforts to save. There are several free online calculators that can help you arrive at a fairly reliable number and give you a target by which you can choose the most appropriate health care savings offering.

A common misconception is that Medicare, the federal health insurance program that kicks in at age 65, will cover your total health care costs when you retire. In fact, Medicare typically pays only about 60 percent of a retiree's health care costs. Further, basic Medicare doesn't cover some much-needed services, such as routine dental and vision care, hearing aids, and long-term care. You can plan for the future costs of health care by investing in a health savings account or obtaining a long-term care policy. These options could save you money in the long run!

3 Start an Emergency Fund

Would you be surprised to know that 4 in 10 adults would be poorly prepared to pay for a \$400 emergency expense? Having an emergency fund—a stockpile of money set aside to cover unexpected expenses such as car repairs or a broken refrigerator—will help you breathe easier during stressful times. An emergency fund can also help you pay for essential expenses without needing to dip into your retirement accounts or put a stop on saving. Ideally, your fund should have enough cash to cover three to six months of essential living expenses (such as those described in “Create a Budget”). That may sound like a lot of money, but if you commit to putting a little away at a time (e.g., \$25 per week), saving becomes more attainable, and your long-term retirement savings goals can remain on track.

4 Take the First Step Toward Controlling Your Debt

It’s a well-known fact that most Americans struggle with debt. And debt is a major driver of stress: research has shown that 64 percent of adults report feeling significantly stressed about money. When it’s a struggle to make the minimum payments on monthly credit cards, mortgages, or student loans, finding extra dollars to save for retirement can be a daunting task. How you accumulated your debt doesn’t matter; just focus on how you’ll free yourself of it. Resolve today to take the first step toward controlling your debt. There are several tried-and-true methods for paying down debt, but most begin with having a solid debt-reduction plan and sticking with it. Not sure where to start?

A financial advisor or a credit counselor can help you see the light at the end of the debt tunnel.

5 Put Savings on Autopilot

When we’re faced with difficult decisions, human nature often dictates that we make no decisions at all. That theory rings especially true when finances are at the heart of the decision-making process. If that sounds like you, try this: make your savings process automatic.

For example, when you enroll in your company’s 401(k) plan, participate in the automatic-increase program—that’s where the amount you contribute to your retirement account automatically increases incrementally each year, usually by an amount so small (such as 1 percent) that you’ll barely even notice. Or, you can have your paycheck direct-deposited and set up multiple subaccounts, or buckets, for various expenses or savings goals. Not having those dollars burning a hole in your pocket will make it much easier to save and accumulate money over time.



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FINANCIAL BASICS



Budget planning

- Retirement accounts may be a good place to consider putting any surplus income.
- It is a good idea to review your budget once a year and see if you need to make any significant changes.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

CREATING A HOUSEHOLD BUDGET

Statistics tell us that the leading cause of household stress is money. Yet many people do not have a system for knowing where their money goes once it comes in the door.

Keeping track of spending — so you can understand your habits and spend more wisely — is an important reason for creating a household budget.

This info sheet can be a starting place for those creating a household budget for the first time and is intended to provide helpful hints. It is based on the same principles as many popular personal finance programs. Therefore, following these guidelines should be a complement to any interactive budgeting program you may want to use.

Budgeting basics

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.
- Calculate the difference between what you earn and what you spend.
- Get your spending in line with your earnings.

After you collect the information suggested here, you may use a ledger, spreadsheet or personal finance program to create your budget.

Know what you earn

List your take-home income. Any income that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, pensions, royalties and child support payments. Gifts or bonuses may be included, but only if you are certain you will receive them in the coming year.

Key points

- Most financial experts recommend that you set aside an emergency fund with enough money to cover six months of expenses in case you are disabled or laid off.
- You do not have to create an emergency fund all at once or panic if you do not have one in place. But you could designate an account that will serve as an emergency fund and begin to put money in it. Even if you only add \$10 per month, it is a good way to start.

Financial Basics

Make sure you deduct all applicable taxes and pre-paycheck contributions so your income total represents money you actually have to spend.

Know where you spend it

Create a monthly list of your expenses. Start with your essentials — shelter, food, clothing — and then move on to nonessential expenses.

Hint: Credit card bills and bank statements are great places to start creating a budget, especially if you use these cards predictably.

For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it is easy to keep track. Since most people shop for the same types of items at the same stores, you can organize your budget the same way.

If you buy groceries at Food Mart, beauty supplies at Beauty Mart and visit Wholesale Mart once a month for items that you buy in bulk, these can all be line items on your budget.

Hint: Record all of your expenses as a monthly amount.

You may need to divide annual expenses (such as property taxes) by 12 or spread quarterly payments out over a year. The following list is a suggested starting point for categorizing your expenses.

Items to include in a household budget

Housing

- Mortgage payment
- Rent payment
- Line-of-credit payments
- Other home loan payments
- Home/Rental insurance
- Real estate taxes (if paid separately from your mortgage)
- Condo fees
- Home improvement expenses
- Landscaping expenses
- Other municipal fees or expenses (landscaping, trash removal, etc.)
- Home decorating expenses

Utilities

- Electricity
- Heating
- Water/Sewer
- Telephone
- Cell phone
- Internet access
- Long-distance telephone
- Cable TV

Household consumables

- Groceries
- Takeout food
- Health products and medicines
- Cleaning products
- Beauty aids
- Dry cleaning

Transportation

- Car payments
- Car insurance
- Car maintenance
- Gas
- Rental cars
- Public transportation
- Commuting costs
- Predictable travel expenses (for annual family trips, vacations, etc.)

Essentials

- Health care expenses
- Pension contributions
- Savings contributions
- Mutual fund account contributions
- Investment account contributions
- Emergency fund (See first page for information on keeping an emergency fund.)

Financial Basics

Entertainment

Dinners out
Club memberships
Movie and theater tickets
Video rentals/streaming
Tickets to sporting events
Vacation expenses

Child care

Daycare
Tuition
Music lessons
Babysitters
Birthday party gifts
Student loans
School pictures
School activity fees
College savings accounts

Other

Charitable donations
Gift expenses for

- birthdays
- holidays
- graduations
- showers, weddings, etc.

Hair care
Hobby expenses

Separate essential from nonessential expenses

Before you compare your income to your expenses, use a highlighter and quickly separate your list into items you consider essential and those you consider nonessential. This quick step will be helpful when you are looking for places to trim expenses.

Calculate the difference between what you earn and what you spend

Add up your monthly expenses and compare them to your monthly income.

Get your spending in line with your earnings

After you have added up your monthly expenses and compared them to your monthly income, you will be left with two possible courses of action, depending on the results.

If your expenses are greater than your income, it is time to get serious. Next to the column in which you recorded last year's expenses, make a new column for your current year budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Then you may want to take a serious look at those items that you decided were nonessential to see where you can make cuts. The goal is to create a realistic idea of how you can get your expenses in line with your income.

If your expenses are less than your income, you may want to consider as options an emergency fund, investments, retirement accounts and college planning accounts. You may want to look at nonessential items and cut where you can to provide for these other accounts. You may also want to build in an inflationary increase in certain items.

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BUDGET

Gross Income

| Category | Current Monthly Amount |
|-----------------|------------------------|
| Employment | \$ |
| Social security | \$ |
| Rental income | \$ |
| | \$ |
| Gifts | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Personal and Family Expenses

| Category | Current Monthly Amount |
|--------------------------|------------------------|
| Alimony | \$ |
| Bank charges | \$ |
| Books/magazines | \$ |
| Business expense | \$ |
| Care of parent/other | \$ |
| Cash – misc. | \$ |
| Cell phone | \$ |
| Charitable donations | \$ |
| Child activities | \$ |
| Child allowance/expense | \$ |
| Child care | \$ |
| Child support | \$ |
| Child tutor | \$ |
| Clothing – client | \$ |
| Clothing – spouse | \$ |
| Clothing – children | \$ |
| Club dues | \$ |
| Credit card debt payment | \$ |
| Dining | \$ |
| Education | \$ |
| Entertainment | \$ |



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BUDGET *continued*

| Category | Current Monthly Amount |
|---------------------------|-------------------------------|
| Gifts | \$ |
| Groceries | \$ |
| Healthcare – dental | \$ |
| Healthcare – medical | \$ |
| Healthcare – prescription | \$ |
| Healthcare – vision | \$ |
| Hobbies | \$ |
| Household items | \$ |
| Laundry/dry cleaning | \$ |
| Personal care | \$ |
| Personal loan payment | \$ |
| Pet care | \$ |
| Public transportation | \$ |
| Recreation | \$ |
| Self-improvement | \$ |
| Student loan payment | \$ |
| Vacation/travel | \$ |
| Savings | \$ |
| | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Personal Insurance Expenses

| Category | Current Monthly Amount |
|-----------------------|-------------------------------|
| Disability for client | \$ |
| Disability for spouse | \$ |
| Life for client | \$ |
| Life for spouse | \$ |
| LTC for client | \$ |
| LTC for spouse | \$ |
| Medical for client | \$ |
| Medical for spouse | \$ |
| Umbrella liability | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Home Expenses

Description: _____

| Category | Current Monthly Amount |
|----------------------------|------------------------|
| First mortgage | \$ |
| Second mortgage | \$ |
| Equity line | \$ |
| Real estate tax | \$ |
| Rent | \$ |
| Homeowner's insurance | \$ |
| Association fees | \$ |
| Electricity | \$ |
| Gas/oil | \$ |
| Trash pickup | \$ |
| Water/sewer | \$ |
| Cable/satellite TV | \$ |
| Internet | \$ |
| Telephone | \$ |
| Lawn care | \$ |
| Maintenance – major repair | \$ |
| Maintenance – regular | \$ |
| Furniture | \$ |
| Household help | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Home Expenses

Description: _____

| Category | Current Monthly Amount |
|----------------------------|------------------------|
| First mortgage | \$ |
| Second mortgage | \$ |
| Equity line | \$ |
| Real estate tax | \$ |
| Rent | \$ |
| Homeowner's insurance | \$ |
| Association fees | \$ |
| Electricity | \$ |
| Gas/oil | \$ |
| Trash pickup | \$ |
| Water/sewer | \$ |
| Cable/satellite TV | \$ |
| Internet | \$ |
| Telephone | \$ |
| Lawn care | \$ |
| Maintenance – major repair | \$ |
| Maintenance – regular | \$ |
| Furniture | \$ |
| Household help | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Vehicle Expenses

Description: _____

| Category | Current Monthly Amount |
|-----------------------|------------------------|
| Loan payment | \$ |
| Lease payment | \$ |
| Insurance | \$ |
| Personal property tax | \$ |
| Fuel | \$ |
| Repairs/maintenance | \$ |
| Parking/tolls | \$ |
| Storage | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Vehicle Expenses

Description: _____

| Category | Current Monthly Amount |
|-----------------------|------------------------|
| Loan payment | \$ |
| Lease payment | \$ |
| Insurance | \$ |
| Personal property tax | \$ |
| Fuel | \$ |
| Repairs/maintenance | \$ |
| Parking/tolls | \$ |
| Storage | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

Taxes

| Category | Current Monthly Amount |
|-----------------|-------------------------------|
| Client FICA | \$ |
| Client Medicare | \$ |
| Spouse FICA | \$ |
| Spouse Medicare | \$ |
| Federal income | \$ |
| State income | \$ |
| Local income | \$ |
| 401(k) | \$ |
| 403(b) | \$ |
| | \$ |
| | \$ |
| | \$ |
| Subtotal | \$ |

| Income | Monthly Income |
|---------------------|-----------------------|
| Total Income | \$ |

| Expenses | Monthly Expenses |
|-----------------------|-------------------------|
| Personal and Family | \$ |
| Personal Insurance | \$ |
| Home | \$ |
| Vehicle | \$ |
| Taxes | \$ |
| Total Expenses | \$ |

Things to remember:

- Your budget should reflect monthly projections.
- Your income should be gross, not net.
- At the end of each section, there are spaces for any other categories that we have not included above.