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Dollars and Sense of Retirement: Living Below Your Means

Whether you are planning to retire or have already made the leap, you may long for some material luxury such as a new car or a second home and you may even have enough cash on hand to pay for it. But because you must build a safe spending and budgeting plan for the long term, you need to keep that money invested and working for you, instead. This is the sort of discipline it takes to live below your means, which will become your guidepost for all spending-related matters in your retirement years.

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What It Means to Live Below Your Means

Living below your means is spending less than you make, less than you could, less than your peers. It is a powerful tool – combining discipline, commitment, and a healthy orneriness to stand against the tide of material consumption. It shouldn't mean deprivation, or being pennywise and pound foolish. Think of it simply as a sensible way of ensuring that money doesn't get squandered through carelessness, impulsiveness, or in keeping up appearances. Buy what you need and have some fun, but don't expect to buy everything you want.

You probably have some ready role models for this way of living and spending. Think of your parents' or grandparents' approach to spending; people who grew up during the Great Depression were often thrifty in the extreme and remained that way all their lives. You didn't see them buying a new car every three years. They recycled before it was fashionable and used things until they wore out. While you may never need to be or want to be quite as frugal as your ancestors – rewashing plastic bags and aluminum foil, anyone? – the heart of their time-tested spending disciplines can still serve you well.

There are some people who are simply good at saving. If you are one of these disciplined souls and have been thinking about early retirement for a while, or have already retired, living below your means is second nature, so ingrained over years of practice that it would never occur to you to blow the budget. Your whole life seems to be organized in such a way that keeping expenses in check feels easy and normal.

But others don't have it so easy. They see their lives as full of spending temptations – including meals in highend restaurants, expensive hobbies, fast new cars, fine art, and luxurious hotels. Sometimes, just getting the property taxes paid, the insurance covered, and the kids to camp can blow the budget.

If you are just starting to plan for early retirement, with a modest amount of savings and a seemingly endless list of demands on your paycheck, you will need to buckle down. The bottom line during your planning years – while you are working full-time to get to early retirement – is that your savings must grow every year, with plenty of fresh cash flowing in. That will probably mean developing a new family culture of frugality, of doing more with less, cutting back on some of the little luxuries, and postponing or passing up bigger ticket items.

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That admonition aside, the reality is that how much you spend and what defines “frugal” for you and your family involve very personal decisions, defying a single recommended script. What is working for a young San Francisco couple who escaped the city for a simpler life as early semi-retirees in the Sierra Nevada mountains will simply not fit a frustrated senior executive who is seeking to continue an objectively lavish lifestyle while starting a little hedge fund and working part-time from home. The approach you choose must fit your preferences, budget, and lifestyle.

Creating Your Spending Plan

Whether you have retired early or are still in the planning years, there are some proven steps for building and keeping a spending plan – some people just cringe at the word budget – that will help you live below your means.

Make It Reasonable

There is no point in setting spending and saving goals you simply cannot meet, or that put you and your family through such pecuniary anguish that they threaten the fabric of your world. Set budget targets that stretch but don’t break you. Your goal is to feel good about the progress you are making, not to feel bad about how far you might have fallen short or still have left to go.

Make It Easy to Track

There are plenty of ways to keep track of your spending – and compare how you are faring against your plan. Some people are avid fans of the complete control method, tracking every single transaction in software such as Quicken or Microsoft Money. Others prefer a more flexible approach that doesn’t require constant recordkeeping. And still others prefer something in between. They have at least some categories for tracking spending, especially separating out items that are only paid once or twice a year from the regular monthly budget, such as insurance and taxes. Within the monthly budget, they break out core necessities from more discretionary spending. It is then easier to target the things that will be cut first if spending starts to swing out of whack.

Make It a Group Effort

Nothing keeps marriage counselors employed like money troubles. If you are in a relationship, work out spending and saving goals together with your spouse or partner – and develop mutually respectful ways to implement them so you can stay on track together.

Give each other some slack and celebrate the progress you make. Work out solutions together when changes are needed. Above all, try not to let the roles become polarized: tightwad versus spendthrift or virtuous nagger versus irresponsible child.