

GET AHEAD IN LIFE CH1

**FROM GETTING BY  
TO GETTING AHEAD.  
THREE KEY STEPS TO  
TAKE YOUR MONEY  
FROM SO-SO  
TO RAINBOW**



# PART I | THE BASICS ARE NOT ASTROPHYSICS

## CHAPTER ONE

# BALANCE YOUR SPENDING

To have your basics covered, you need to balance your spending, build an emergency stash and pay off your debts. Simple.

Let's start by looking at how allocating your money as soon as it comes in can help you manage it like a pro.

### BALANCE YOUR SPENDING

Before we get into it, let me just get something off my chest: Budgets don't work!

Of course, I'm not suggesting that you don't need to spend less than you earn or that you don't need a plan for your money. Of course you do. What I am saying is that budgeting as you know it is broken. And I'm about to show you another way to manage your spending that works.



“THE NUMBER ONE REASON BUDGETS HAVE SUCH A POOR REPUTATION IS THAT THEY ARE PRIMARILY FOCUSED ON CUTTING.”

The first question most people start with when setting a budget is: 'What can I do without?' or 'What can I spend less on?' This is the same as starting a diet and asking: 'What shall I cut out?', rather than 'What nutrients do I need?' It is based on deprivation, on just saying NO to the things you love. It relies heavily on willpower. So it's no wonder it doesn't work for most people.

If budgets and diets did work, we'd all be skinny millionaires. We'd all have flat stomachs and bulging wallets. Instead, we have flat wallets and... well, you know what I mean.



For most people, budgeting isn't a rationing problem – it's an allocation and optimisation problem. This distinction may sound like semantics, but it is vital for building a sustainable budget. Let me explain.

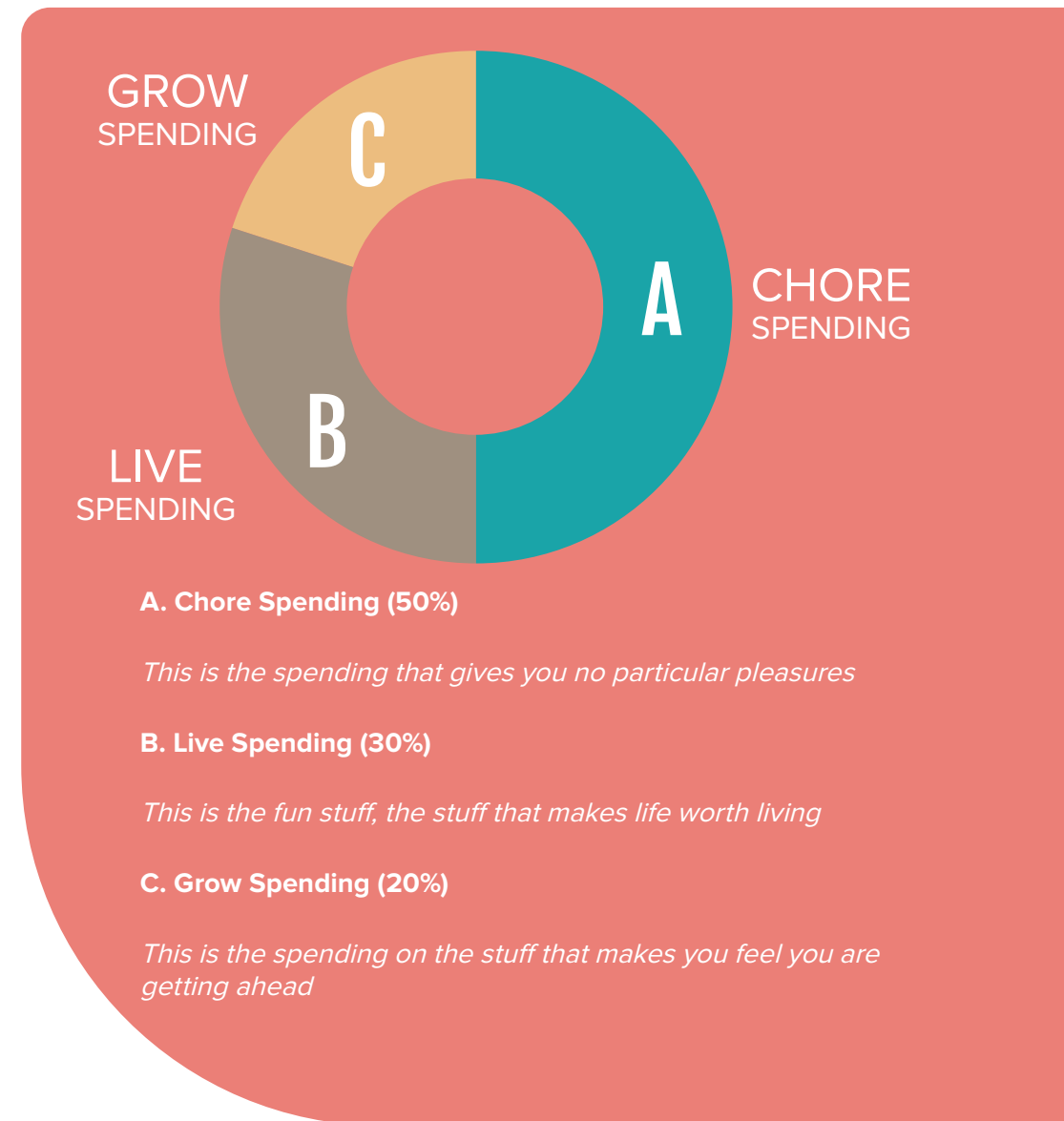
Instead of thinking about a budget as cutting things out, like being on a diet, think about it as a spending plan, which is more like a nutritional plan. We need to consume a balanced mix of carbohydrates, proteins, and fats within an overall calorie allowance to live a healthy life.

If these are the building blocks of a nutritional plan, then what are the major categories of a balanced spending plan?

Based on my years of experience helping people get more from their money, I've discovered that our spending fits into three categories: Chore, Live and Grow.

You achieve healthy spending when your outgoings are balanced across the three categories, fit within your overall income and align with your goals and values.

Let's see how that's actually done, by getting familiar with the three types of spending categories.



## A. CHORE SPENDING

*This is the spending that gives you no particular pleasures*

This category includes most of what goes into having somewhere to live, stay warm or be safe; cooking and cleaning; eating; earning a living and meeting your debt obligations. It's a surprisingly small list, but it makes up a large part of our spending:

### CHECKLIST

- Rent/mortgage payments (the minimum you have to pay)
- Rates, strata or body corporate fees and maintenance (not improvements)
- Utilities (electricity, gas, telephone and internet)
- Food and groceries (including lunches and your daily keto bulletproof coffee – no judgement, you're in a safe space here)
- Car expenses (loan payments, insurance, registration, fuel, maintenance, parking and tolls)
- Memberships or licences required for your work
- Childcare (for when you are at work, not babysitters)
- Insurance (life, income protection, house and contents)
- Medical expenses
- Child support or spousal maintenance.

Your parents might have called these needs or must-haves, but there are some subtle differences that are important.

Notice that I haven't included clothing. Unless you live in a nudist colony, you need clothes. You need clothes to go to work; you need clothes to stay warm (or cool) at home. But for most of us, the purpose of clothing goes well beyond these physiological needs.

It's as much about the joy of shopping at chic boutiques, the secret pleasure of lingerie under a prim business suit and the empowerment of rocking just the right outfit at a social function. In these cases, the pleasure of purchasing (and wearing) far exceeds the pain of purchasing.



When it comes to food and groceries, you could take a purist view and say that noodles and beans are Chore expenses, and steak and beer are Live expenses.

But don't get too hung up on this. And if you want to know when you should consider food as sustenance and when its primary purpose is social or entertainment, here is an easy rule of thumb for you.

## IS FOOD A CHORE OR A LIVE EXPENSE?



Do you eat it at home or take it away?  
Food counts as a Chore expense

Do you eat or drink at a cafe, restaurant, or pub?  
You can treat food as a Live expense.



Most people spend a similar proportion of their income on utilities and food. So what you spend on Chore expenses largely depends on three things: where you live, what you drive and what you owe.

“ IN A BALANCED BUDGET, YOUR CHORE EXPENSES SHOULD BE NO MORE THAN 50% OF YOUR INCOME ”

To quickly know if your Chore expenses are healthy, we've put together the checklist below.

## CHECKLIST

### Chore expenses health check

- Your home's worth is four to five years gross (pre-tax) pay
- The value of your car is less than three months' pay
- You have no credit card debt

## B. LIVE SPENDING

*This is the fun stuff, the stuff that makes life worth living.*

It includes most of the optional spending decisions we make each month. I like to think of it as spending on looking good, feeling good, going out and staying in.

- Looking good: clothing, haircuts, beautician visits and cosmetics
- Feeling good: massages, memberships and charity donations
- Going out: movies, theatre, concerts, eating out, going to the pub, holidays, activities for the kids and related expenses
- Staying in: hobbies, books, video and music streaming.

Charitable donations are controversial, as they are essential to many Life Sherpa members. For simplicity, I have included them here.



**YOU SHOULD AIM TO  
HAVE AT LEAST 30%  
OF YOUR INCOME  
ALLOCATED TO LIVE  
EXPENSES.**

**It doesn't matter how you spend it within this category; it's entirely up to you. Your values will guide you towards getting the biggest bang for your buck.**

## C. GROW SPENDING

*This is spending on the stuff that makes you feel you are GETTING AHEAD.*

It relates to achieving your goals – whether they are about paying off your past debt, doing or buying something that’s too big for one year’s budget, or simply building a nest egg.

Paying off past debts includes any payments to people you owe money to, over and above the minimum payments under Chore expenses.

With ‘debt’ we consider your home loan, credit cards, and what you owe your parents or anyone else. It doesn’t include your HECS payment, which is a tax, and comes off before we get to net income.

“ YOU SHOULD AIM TO ALLOCATE AT LEAST 20% TO GROW EXPENSES. ”



Grow spending covers three categories:

- **Future spending:** saving for a new car, TV, washing machine or an overseas holiday. These are items that don’t fit into a single year’s budget but will be spent on consumables and items that will wear out or depreciate. It also includes future school fees and lifestyle assets such as boats.
- **Medium-term goals:** the deposit on your first home, cash to start a business, or putting something aside to build your emergency stash.
- **Long-term goals:** retirement and other goals that require a substantial amount to be accumulated over a long period of time.



## APPLYING THE 50/30/20 RULE

As you've noticed, in the description of these building blocks, I have shown you a goal for each type of spending: 50% Chore, 30% Live and 20% Grow. That's why I call it the 50/30/20 rule. Clever, I know.

Why these percentages? It's all about balance – balancing the stuff you have to spend with the stuff you really want to spend without stealing from the future.

### 50% Chore

Keep your Chore expenses as low as possible. It is difficult to keep them below 40% for extended periods if you live in a city, drive a car and have a mortgage. Letting them get to 60% impacts your choices, and limits your ability to get ahead.

### 30% Live

Try to keep your Live spending to 30%. This is enough to feel you are not restricting yourself, but still leaves enough to feel you're getting ahead.

### 20% Grow

The 20% for the Grow category is dedicated to your goals. It's not about saving for the sake of saving or simply saving for retirement – after all, that could be 40 years away (and that's why you have super).

They're your goals, and your values will guide you in setting and prioritising them.

Keep in mind, it's not intended to be a rigid split. It's more of a benchmark, so if your spending is way off you can identify it, work out if that really matters to you and develop a plan to get back into balance.



## WHAT'S SO GOOD ABOUT THE BALANCE SPENDING SYSTEM?

### **Simple.**

It doesn't take a heap of spreadsheets or a degree in finance. All you have to do is to keep coming back to how your spending makes you feel and your three numbers.

### **Sustainable.**

It doesn't judge what is good spending or bad spending. It doesn't matter what you choose to spend your 30% on; that's yours to decide. It doesn't force you to give up what you really love.

### **Effective.**

It works because it gives you a simple benchmark for your spending. You don't need to look at what everyone else is doing and try to guess the right amount to spend on your home, your car or anything else.

AS YOU'VE SEEN, BALANCED SPENDING IS NOT ABOUT CUTTING OUT THE STUFF YOU LOVE.

**BALANCED SPENDING IS ALL ABOUT GETTING  
RID OF THE STUFF THAT'S GETTING IN THE  
WAY OF WHAT YOU REALLY WANT**

TRIM THE FAT SO YOU CAN LIVE THE LIFE *YOU WANT*  
WITH THE MONEY *YOU HAVE*.



Time to apply the learnings (you've got this!) 🦊

Start by applying the 50/30/20 – putting figures on paper will help you get clarity and will lay down the foundations for what's next

How much of your income goes into your Chore spending? \_\_\_\_\_

How much of your income goes into your Live spending? \_\_\_\_\_

How much of your income goes into your Grow spending? \_\_\_\_\_

What goals have you set for your Grow category?

\_\_\_\_\_

Here is a nice spot for your notes (you're welcome!) 📅

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