

# HOW DOES MY SPENDING COMPARE TO OTHERS WITH SIMILAR WEALTH?

By: Koji Watanabe, CFP®, Senior Financial Planner

America – and the world, for that matter – is trying to get back to some sense of normalcy. There’s no doubt the events of the past year or so disrupted and affected numerous aspects of our daily lives, including our budgets and spending habits. According to a recent survey, 64% of Americans agree.<sup>1</sup>

Just the fact that millions of individuals spent more time working from home than at their place of employment increased their spending on items such as groceries, home improvements, online shopping, alcohol, pet ownership, home workout equipment and classes, media entertainment systems, and streaming services. As a result of the economic shutdown, less money was spent on leisure and business travel, dining out at restaurants, gym memberships, designer clothing, entertainment, transportation, and luxury items.

It should come as no surprise that budget items in most households may have gotten out of whack and significantly shifted around – not necessarily by choice, but because families were forced to adapt their routines and financial habits to get through a catastrophic event.

It’s important to note that in 2020, the top wealthiest 25% of Americans cut their consumer spending more than any other income group during the height of the pandemic. Most of the drop in their spending came from reduced buying of goods or services requiring in-person contact such as hotels, transportation, and food services. But spending on landscaping services and home swimming pools did not fall.<sup>3</sup>

No doubt you’re feeling like most Americans who are more than ready to jump start their lives again.

However, things may continue to be a little out of whack for a while. In the meantime, there are ways to start enjoying life again and still be responsible with your personal finances. Consider these tips to help you plan wisely and keep your spending in check as we transition to our “new normal.”

## HOW OTHER WEALTHY AMERICANS SPEND THEIR MONEY

According to a 2019 Statista report<sup>2</sup> (the most recent numbers available because of the unusual nature of circumstances in 2020), the top 20% of wealthy Americans spend nearly 75% of their income in four areas: housing (mortgage, property taxes, homeowner’s insurance, etc.), personal insurance and pensions, transportation, and food. The following chart shows the percentage breakdown for the top areas for average annual consumer spending by wealthy individuals:

Housing	29.9%
Personal Insurance and Pensions	16.3%
Transportation	15.8%
Food	11.5%
Healthcare	6.9%
Entertainment	5.6%
Cash Contributions	3.8%
Apparel and Services	2.9%

## FIVE WAYS TO GET YOUR FINANCES BACK ON TRACK

**Splurge within your boundaries.** First, live a little. We just experienced a global pandemic and survived unimaginably stressful situations. Not being able to share a meal with friends at a favorite restaurant or travel to celebrate holidays with loved ones took its toll on everyone. So go ahead and splurge a bit – just do it strategically and within your financial boundaries. Set a dollar limit upfront for your splurges, then stick to that limit as you spend time and money on things you’ve missed.

**Review or create your budget.** Carefully review your financial situation – what you own vs. what you owe creditors – to help set budget guidelines for living within your means. Start by reviewing your paychecks to determine your exact take-home income and the amount of money you can budget to spend each month (this is especially important if you experienced a significant change in wages, changed jobs, or your employment status changed in the last year or so). Make sure you are taking full advantage of any tax or employer benefits you’re entitled to, such as matching your 401(k) contributions, and update your employer’s records to reflect any changes you want made.

**Decide what expenses in your budget are permanent vs. those that may be temporary.** Some of the changes that affected your lifestyle during 2020 may be permanent while others may be more transitory in nature. For example, perhaps you’ll be working remotely, part time, or as a contractor going forward instead of returning to your previous place of employment. This major lifestyle change likely would affect pre-pandemic budget line items such as clothing, childcare, transportation, food, entertainment, and household expenses. If you’ll be working from home only until your place of employment fully opens up again, you’ll need to anticipate changes in your expenses and reflect that transition in your budget. You can find more helpful information in our article, [“Exploring Your Work-Life Balance Options in the New Normal”](#) on our website.

**Consider new expenses that need to be incorporated into your budget – and curb old spending habits where possible.** Perhaps your job situation in the new normal presents the opportunity for extended travel. Or maybe you would rather enjoy quality time with family and friends around your beautiful new inground pool and outdoor bar and grill rather than spending so much time entertaining and hanging out at expensive, crowded restaurants. Decide what experiences are important to you based on your current lifestyle, then add to and reduce your budget expenses accordingly. Allow for adjustments as your personal, financial, and professional situations change over time.

**Strive to be a better money manager.** Let’s face it – most of us didn’t exactly develop or practice the best spending habits during the pandemic. Many of us bought what we wanted (mostly online) without thinking twice. It made us feel good, and our spending sprees helped us through the bad times we were experiencing. But reality probably hit hard when our monthly credit and debit card statements arrive – and some of us may still be paying for our indulgence.

Bottom line, we could all strive to be better managers of our money. Not only will that help us keep our spending in check for today, it also will better prepare us financially for the next challenge that comes our way.

## MOVING FORWARD FINANCIALLY

Regardless of what your lifestyle looks like in the new normal, it’s important to address all your financial planning concerns so you can make informed decisions about your future. We can help. Our team of advisors not only can answer your questions about cashflow and budgeting for short-term goals, we also can assist with planning for long-term goals pertaining to your retirement. Contact Commerce Trust Company today.

<sup>1</sup> Megan Leonhardt, Your Money Mindset, “64% of Americans changed their spending habits during the pandemic – here’s how,” [e://www.cnn.com/2020/09/29/americans-have-changed-their-spending-habits-during-the-pandemic-heres-how.html](https://www.cnn.com/2020/09/29/americans-have-changed-their-spending-habits-during-the-pandemic-heres-how.html), September 29, 2020.

<sup>2</sup> Statista, “Percentage of annual U.S. consumer spending by income quintiles 2019,” <https://www.statista.com/statistics/247420/percentage-of-annual-us-consumer-spending-by-income-quintiles/>. January 20, 2021.

<sup>3</sup> Bloomberg, <https://www.bloomberg.com/news/articles/2020-06-18/richest-25-of-americans-cut-spending-the-most-during-pandemic>, June 18, 2020.

<sup>4</sup> Kelly Anne Smith, Forbes Advisor, “How to Budget in a Post-Covid World,” <https://www.forbes.com/advisor/personal-finance/how-to-budget-after-covid/>, updated June 23, 2021.

The opinions and other information in the commentary are provided as of August 17, 2021. This summary is intended to provide general information only, and may be of value to the reader and audience.

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## ABOUT THE AUTHOR



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Koji is a financial planner for Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Koji develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax and investment strategies along the way. In addition to his current role, he has also served as a private banking relationship manager with Commerce Trust. Prior to joining Commerce Trust, Koji was a client manager with Bank of America's wealth management group. Koji received his bachelor of arts degree from Colby College in Waterville, Maine, and has earned his CERTIFIED FINANCIAL PLANNER™ designation. Additionally, Koji is a member of the Kansas City chapter of the Financial Planners Association. He also serves on the board of Brookside Charter School in Kansas City, Missouri.



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