Saving for a Dream

This document lays out the EXACT steps that James and I took to create our personal financial statements. Analyzing our assets and cash flow position greatly helped us create a savings plan for our dream of buying, and living aboard, a catamaran.

If you haven't already, please read my blog titled "*How We Financially Prepared to Sail Full-Time*". In it, I address the 4 expense types you must be prepared for in order to know your "bullet number" and start saving for your dream. It's truly the best place to start!

I hope you find these extra details helpful!

Julia Cognito
Recovering Banker & First Mate

Analyzing Our Cash Flow

To get a grip on our cash flow position, James and I gathered the following financial data and I recommend that you do, too:

Paystubs: We pulled these directly from our employers' HR systems. There, I found a nice summary of how much I was paid each pay period after taxes, healthcare premiums, and 401k contributions. These items are essentially expenses that are being pulled out of our cashflow before we ever see it, which is why it's so important to review your actual paystub. If you don't know how to get this information for yourself, ask your company HR representative to guide you.

Credit card statements: We primarily use credit cards to pay for daily expenses, and we strive to pay them off in-full each month. We use credit to pay for things that we would buy anyway (fuel, groceries, Netflix) and earn a return on those transactions in the form of airline miles or "cash" rebates. No matter how you use credit cards, it's important to pull your last 6–12 months of statements to track spending patterns to get the full picture of where you are spending money.

Bank account statements: We use our bank accounts to handle the bulk of our money movement. We have bank accounts to capture deposits (like our paychecks), to pay off our monthly credit card activity, and to auto-pay those expenses that can't be put on a credit card — like our mortgage, insurance payments, utilities, etc. Again, plan to pull the last 6–12 months of statements from your bank accounts for assessment. (Here, I am talking about operating accounts, not savings accounts, which we will address in the asset section.)

We used these documents to identify & total our MONTHLY $ AVERAGE in each of these categories:

1. **Income:** The gross amount of money we could reasonably expect to make each month, prior to any expenses that are pulled from our paychecks.

2. **Payroll Deductions:** These are the above mentioned expenses: taxes, healthcare premiums, Social Security, HSA and 401k contributions that are likely automatically pulled from our paychecks today.

3. **Non-Negotiable Expenses:** The expenses that we expect to pay each month to keep life on track: rent, mortgage, insurance, tolls, cell phone plans, groceries, car payments, gas, utilities, etc.

4. **Luxury Expenses:** These are re-occurring expenses that are "nice to haves" but could be nixed or replaced with a more cost-effective alternative: gym memberships, Netflix subscriptions, daily Starbucks coffee runs, salon appointments, happy hours with co-workers, housekeeping, etc.

5. **One-Time Expenses:** These are expenses that were not part of our regular routine; like vacations, gifts, an unexpected car repair, the purchase of a major appliance, etc. We took the total of these items over the past year and divided it by 12 to get the monthly average.

6. **Debt Expenses:** These are expenses *related* to carrying debt, like the interest charges incurred on a credit card that carries a balance.

7. **Investment Expenses:** These are savings plans disguised as expenses; like money we had automatically transferred from our checking accounts to a brokerage or savings account each month.

To calculate our cashflow, we deducted the TOTAL of items #2–7 from our Monthly Average Income (#1).

We ended up with a positive number, which meant we were operating at a profit and had extra cash each month. YAY! We knew this put us the fast-track to saving for our dream, and we put that extra money to work by placing it into savings and brokerage accounts where it would grow.

Had we ended up with a negative number, then we would have been operating at a loss and spending more than we earned. If you find yourself operating at a loss, don't panic! Take these steps to turn the ship around:

1. Consider those Luxury Expenses that you can cut out, and use that money instead to pay down existing debt or shift to a savings account. James and I reduced our weekly dance lessons, and I started bringing my lunch to work instead of going out with coworkers every day.

2. Assess your Non-Negotiable Expenses — are you willing to downsize your home and mortgage, drive a cheaper car, or move closer to your job in order to save more money toward your dream? When the lease for my BMW was up, I traded it in for a Kia.

3. When confronted with the next purchase of a One-Time Expense, consider all your options. Is the expense necessary, and if so, what are your best options to fulfill the need without going overboard on the cost?

4. Take a look at your options to reduce your Debt Expenses. Many people put their One Time Expenses on a credit card to have the flexility to pay for that expense over time. If your credit card has a high APR, see if you can qualify for a card with 0% interest on balance transfers. My husband transferred a couple of card balances onto a single 0% interest card, which made it less costly and easier to manage.

5. Review those Payroll Deductions that you have the ability to change. If you feel that you are over-contributing in any area, like your 401K, you can reduce your contribution level and gain immediate access to more of your cash. For example, when my company opened up enrollment for benefit plans, I decided to forgo Vision Insurance and the extra Life Insurance policy in order to save a little more each month. NOTE: These items need to be taken into careful consideration, dependent on the state of your health and retirement goals.

6. Align your skills to your Income. Are you deserving of a raise but haven't had the guts to ask for it? Is there a hobby you love that turn into a side hustle? Now's the time to get that money, and put it to work as an Investment Expense. I took on another job as a ghost writer in the financial sector and funnel that extra income into a savings account.

Whether you are currently operating in the black or the red, keep a hawk's eye on your cash flow and continue to make adjustments to pump up your savings. You'll be surprised how many things you can live without knowing that cash is now funding your dream.

Analyzing Our Assets

The goal in analyzing our assets was to walk away with a list of items that we could sell or liquidate, in order to reduce our liabilities (debts) and fund our dream.

We started by making a list of those items we owned that hit on both of these marks:

1. The item had considerable monetary value. For instance, our home. Although we were still paying a mortgage on the home (a liability), it's still an asset that will only increase in value and can be sold at a profit.

2. The item could be liquidated for cash. In addition to physical assets like our home, cars, and general "stuff", we also made a list of the current value of our savings, brokerage, retirement accounts, etc. Here's a list of our assets and what we decided to do with them:

Our Home: Because our dream is to sail the world and live full-time on a boat, we considered selling our home to fund the boat payment (yes, we are financing the boat — more on that later!) However, our home is also primed to be a rental. It is a 3 bedroom, 2 bath, in a desirable area where rental homes go fast. Rather than sell, we refinanced our mortgage from an aggressive 15 year to a 30 year. We were fortunate to lower our rate in this process and cut our monthly mortgage payment in half. Considering the rental rate in our neighborhood, the renters' will cover our mortgage, the fee for a property manager, as well as a few extra hundred dollars that we will consider as income!

Our Furnishings: No doubt about it, we planned to sell the majority of our furnishings. First of all, most property managers want the home to be completely empty with no furnishings. Second, the value of most of our furnishings was not worth paying to store them for the long term. Finally, we are moving onto a boat so we can’t take it with us! Why not liquidate and put that cash in the bullet fund?

Our Cars: We had one car on a lease (mine) and one car that we owned out-right, a Jeep Grand Cherokee that my husband drives. We had to return my car, and we decided to drive the Jeep to our final destination and sell it there (Florida). Add it to the dream fund!

Our Retirement Accounts (401k/Roth): This is an asset that I was not willing to even consider liquidating. I’ve been contributing to my retirement accounts for many years and have built a considerable nest egg that will only grow bigger the longer I let it sit. I put these accounts in the “untouchable” category because it gives me great comfort to know my long term future is mostly funded. (Plus, I did not want to pay the tax penalty on pulling those funds out early.) My husband, on the other hand, decided to liquidate a portion of his 401k in order to pay off a personal loan. For him, it gave him great comfort for us both to set sail without debt.

Our Savings Accounts: Our savings accounts were definitely on the table. In fact, we created them with the intention of them serving as a “bullet fund”. It’s where we funneled our monthly profit to be saved until we were ready to pull the trigger on our big dream. I opened a High Yield Savings Account that earned us nearly 2% in interest, contributing even more money to our bullet fund each month! We'll use the money in this account to pay for the down payment on the boat, and fund our monthly expenses while living aboard.

Our Brokerage Accounts: We have a brokerage account through E-trade where we dabble in the stock market. While it's on the table for liquidation if needed for an emergency, it's not something that we plan to liquidate to fund our life at sea. Like my 401k accounts, I prefer to let it sit and grow.

Our HSA Account: We have an HSA (Health Savings Account) through my job that allows us to use tax-free money to pay for medical expenses. The catch is that the money in this account can only be used for medical expenses, so we can't liquidate it. My husband and I are both in excellent health, knock on wood, and have decided to forgo paying for a health insurance plan while we are at sea. Instead, we will use the funds accumulated in this account to cover doctor visits etc.

After reviewing our list, what assets will you hang on to? Which will you liquidate? Are there any assets that you would like to setup today to help you fund tomorrow?

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