The Bucket List: Can you fund your lifestyle—for life?

By: Michael Liersch, Global Head of Wealth Planning & Advice

Is there a chore more widely disliked than budgeting? It's tough to imagine. So, let's say right off the bat—this is not an article about budgeting for your lifestyle needs. Instead we discuss how you can plan for your lifestyle spending so that you don't have to budget. The goal: Set aside enough money in your lifestyle "bucket" and invest it appropriately to meet the spending needs and wants you and your family will have over the course of your lifetime.

Bear in mind: You should think of a "lifestyle bucket" as separate and distinct from a "liquidity bucket." The liquidity bucket holds cash and other forms of liquidity to cover operating cash flow, big ticket purchases and opportunistic investments, while allowing you to sleep well at night. A lifestyle bucket contains financial and investment resources—set aside in a "lockbox" strategy—that you hope will reliably provide for your lifestyle needs and wants over your lifetime. If anything were to happen, there is money available for the sole purpose of a comfortable life.

Our approach to thinking about the lifestyle bucket has four elements:

- Label the lifestyle goal
- Estimate the annual dollar amount
- Identify how long that dollar amount will be needed
- Determine at what level of certainty you would like to have that money to spend

1. Label the lifestyle need

A wide range of spending is embedded in your lifestyle, but it generally relates to one of three categories: you and your spouse/partner; your family; your community. In the first category, determine how much money is spent on basics such as food, clothes, home maintenance, travel, ongoing large purchases—the nuts and bolts of daily life. In the second category, what are the intended gifts to family members, a roster that could include college education for children and grandchildren, wedding expenses, annual gifts and, perhaps, the family's summer home? Finally, a third category covers community-minded gifts such as donations to your alma mater or charitable contributions and philanthropic bequests.

2. Estimate the dollar amount

The next step is to estimate a dollar value for each of those categories. Again, we're not suggesting that you set these out in a budget—but what's the total number? These may be fairly precise or rough estimates. Some people may not want to get into specifics and instead say—I spend about X dollars a year on myself and my spouse, Y dollars on my children, and Z dollars on community-minded gifts.

3. Identify how long that dollar amount will be needed

Time may be one of the most important elements when thinking about setting aside a bucket of resources. Time is a major determinant of how much money should be held and how it should be invested. Living well past 90 years old is no longer an unusual occurrence, so if you're 60 years old, reserving an annual lifestyle spend for 30 to 35 years may not be out of the question. And if you are going to be investing toward a long time horizon, taking measured risk for extended periods of time may make sense. But if you need large portions of the lifestyle bucket in the near future, dialing down that risk may be a critical consideration.

4. Consider the element of certainty

So, you have the important numbers—you're going to need a certain amount of money over a certain number of years. Now ask yourself an important question that may be difficult to answer: With what level of certainty do you need to know that those lifestyle expenses will be covered? If you require a high degree of certainty, you'll need to set aside relatively more in the lifestyle bucket. That's because it will be more conservatively invested. On the other hand, if some of your lifestyle expenses are flexible, you may choose to allocate relatively less and invest it more aggressively, and with greater risk assume greater reward—but you'll have less certainty that you will be able to meet those goals.

Do you want to opt for greater certainty with a larger bucket of money set aside? Or lesser certainty with a smaller bucket? That's the unavoidable trade-off. (Alas, you can't have your cake and eat it too.)

To help bring this concept to life, here's an example of how you can think about aligning capital from your overall portfolio into a lifestyle bucket (see graphic below).

Essential vs. discretionary lifestyle spending

You can make the trade-off more palatable, though. It might help to divide your lifestyle needs into essential and discretionary spending. Perhaps two-thirds of the spending feels non-negotiable but one third could be eliminated with no serious discomfort. In this scenario, the essential bucket would require greater certainty and would thus be sized and invested accordingly, whereas the discretionary spending could be targeted with a

Getting into the details... articulating what's in your lifestyle bucket

Category	Capital needed (annually)
You and your spouse/partner Food, clothes, home maintenance, summer travel, ongoing big purchases	$187.5K
Your family College tuition payments, annual gifts, weddings	$37.5K
Your community Donation to alma mater	$25K
Total annual spend	**$250K**

How much would you need to set aside *right now* in order to spend $250K per year for the rest of your life with a high degree of certainty? Answering this type of question in your own lifestyle bucket can help you set aside the appropriate amount to maintain the lifestyle you want.

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smaller bucket and a more aggressive investing strategy. Remember, though, that you'd need to be prepared to "give up" the discretionary expenses if circumstances demand it.

Be honest—acknowledge when an expense really feels essential. In this context I'll mention a not-so-secret fact about how humans behave with their money: As our wealth level increases we tend to increase our consumption and spending to align with our new status. Maybe that means another home, or a more valuable piece of art. What might have felt a discretionary expense a decade ago is now essential.

Final thoughts

The important thing is to think about trade-offs intentionally and deliberately—and heed the message they send. Maybe the message is that you're spending too much or too little relative to your wealth level. Maybe the message is that you have a sound plan to cover your lifestyle needs, but perhaps the plan needs some tinkering. Keep your eye on the ultimate goal: Make sure you have allocated enough money to your lifestyle bucket and are investing it appropriately to meet the spending needs for you and your family over the course of your lifetime. We believe our four-element approach can be helpful in guiding your thinking, and informing your conversations with your family and trusted professionals.

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