



# Planning for Major Expense or Pursuing a Hobby or Interest

## Questions and Concerns:

- What major expense do you anticipate in the short-term? In the long-term?
- What is the most effective method to pay for this expense?
- What hobby or interest would you like to pursue?

## What major expense would you like to plan for in the short-term? In the long-term?

Major expenses can be the realization of dream of travel, a cabin in the forest or a home remodel. They can also be necessary expenses from replacing a car, reroofing or buying out a business partner. For younger individuals it can be saving for a down payment on a home. Others it can be starting your own business.

The first step is to identify this type of expense and the amount. The second step is to identify the time frame in which this expense will take place. You also want to budget that amount in a way that does not impact other major goals or lifestyle.

## What is the most effective method to pay for this expense?

The third step is determining how this expense will be funded.

**Saving for the Expense** – If this is a depreciating asset expense, such as an auto, it preferable to set aside replacement funds over the course of time. Car makers have vastly improved the quality of their cars and it is common for individuals to replace their vehicle every ten years. Setting aside \$250 per month will provide \$30,000 plus interest to replace a car. If a used car is purchased then the time frame could be shorter. The shorter the time frame the larger the savings and borrowing may have to be considered. Saving for a medical procedure can be done through a health saving plan or an employer's medical reimbursement plan. The tax benefits of these plans can be beneficial.

**Borrowing for the Expense** – There are several ways to classify major purchases as essential verses non essential purchases and depreciating verses appreciating purchases. Obviously, it is preferable to pay cash for nonessential depreciating assets rather than borrowing. However, reliable transportation is usually essential for employment and one may need an auto loan regardless if it is a depreciating asset. It is also ideal to match the type of borrowing to the purpose of the loan. For example, a home equity loan should be used primarily to remodel a home or to protect the value of the property. Shopping and comparing loans among credit unions, banks, finance companies and private banking is beneficial. Doing your homework allows you to negotiate for the best loan rate.

**Using Existing Savings or Investments** – If you are drawing from savings....good for you. You have planned well. If the money you are using is from your investment assets, separate that amount into a



conservative position. Perhaps move that amount into savings. Upon segregation of that amount, it is important to review your investment portfolio to make sure your asset allocation is not out of alignment with your investment situation.

1031 Exchange - If this is real estate and you are selling one property to purchase another, consider a 1031 exchange. This will allow you to “exchange property” without capital gains. It should be understood that a 1031 exchange simply defers the tax and transfers the cost basis from the old property to the recently purchased property. The IRS provides further information on 1031 exchange on this link:

IRS: 1031 Information	<a href="http://www.irs.gov/businesses/small/industries/article/0,,id=98491,00.html/">http://www.irs.gov/businesses/small/industries/article/0,,id=98491,00.html/</a>
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### **Are there any hobbies or interests you would like to pursue?**

The purpose is to discuss ideas you have not mentioned openly. The sky is the limit on a hobby or interest. It could mean going back to school, travel, quilting, or restoring cars among numerous other examples. Often one gets so caught up in their careers that it remains on the “back burner”. A generative discussion would be: “What it will take to pursue this interest?”. Sometimes it takes money, and perhaps it might be more of a time commitment. Devoting more time to an interest may mean cutting employment hours. Reviewing your net worth statement and cash flow will help you determine what it will take to pursue your interest. If the financial aspect is the concern then review the write-up:

How to Retire: Part II - At Retirement Planning “Filling the “void” in your life”.

### **How can a financial planner help you plan for major expenses or hobby/interest pursuit?**

One of the satisfying aspects of the jobs for a financial planner is to help their clients accomplish their goals. This is helping one live their life to the fullest. They will work with the client to review their financials, their work schedules and their time to help them meet their objective. As mentioned, planning for a major expense allows a person obtain their dream purchase and to make sure expected future maintenance does not set them back. The methodology and diligence will help prevent second guessing on what “they should have done”.

#### **DISCLAIMER**

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