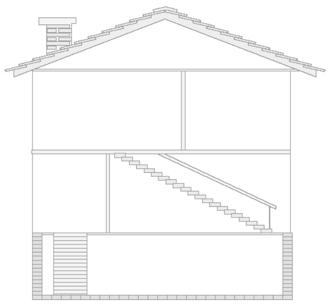
CHAPTER 3

A BLUEPRINT FOR FINANCIAL BALANCE



Psychologists have always said that public speaking is the most universal fear. We're not so convinced. In fact, few situations can get the heart racing, the stomach knotting, or the palms sweating like financial trouble. A good many of us stick our heads in the sand like an ostrich when we get into hot water with money. The bills start to pile up—first on the kitchen counter and later in a box in the back of a closet. When the collection agencies start calling you at all hours, you're grateful to have Caller ID.

A marriage can disintegrate under financial strain. In fact, studies indicate that financial disagreement is one of the leading causes of marital problems. Who can relax and enjoy one another when you're worried about paying for your kids' school and the mortgage?

Basically, when it comes to money, it all boils down to this—we spend too much and save too little. You aren't the first person to scratch your head wondering, "How can I make this much and have so little to show for it?" A Saturday matinee with two children will cost you nearly $30, even before you head to the snack counter for sodas and popcorn.

The fear of money and financial stress robs you of confidence. After a while you can start to feel as if the situation is hopeless and you'll never get it together. But it doesn't have to be that way. It's time to change the way you view yourself in relation to money. It's time to take back your power over money. If that sounds like magical thinking, you are wrong.

Stop right here and go get a pencil and a pad of paper because in this chapter you're going to need it. To get your financial house in order you have to look your money concerns straight in the eye. You also need to know what you want. You might say, "That's simple, I don't want financial problems anymore." But that's fuzzy thinking and not clear thinking. Be more specific. To get to where you want to go you need to know where you're going. The more specific you are in listing your goals, the better you'll be able to know if you're making progress. Think of your goals as mile markers.

Instead of Fuzzy Thinking	**Think Clearly**
I don't want any more money pressures →	I want to eliminate my credit card debt.
	I want to pay my bills on time.
	I want to put money into my savings account each week.
	I want to buy a house.
	I want to start saving for my retirement.

Write Your Own Map

Think for a moment and imagine yourself exactly where you want to be financially. If you can, resist the impulse to imagine that you're a Power Ball winner and have more money than you can spend in 10 lifetimes. If you do happen to win the lottery one day that's fantastic, but for the time being keep your feet firmly planted on the ground.

What are your financial goals? What financial difficulties would you like to resolve?

1 ______________________________

2 ______________________________

3 ______________________________

4 ____

5 ____

This next part is important. Imagine for a moment that you have accomplished everything on your financial list. Answer this question:

What will your life be like when these financial concerns are behind you? What will you be doing?

Finally, think for another moment and answer this question. This question is important because it's the first mile marker you're going to see as you take yourself to a better financial life.

What will be the smallest sign that you are moving in the right direction and that you are moving away from financial stress?

A small sign is exactly that—small. Don't be concerned that your sign seems too small. When you start to create one small change, other changes will follow. When there is a positive change in one area, other positive changes will occur somewhere else. So think small, no matter how unimportant it may seem and how far you may feel from your goals.

Too Big	Just Right
I'll take a vacation. →	This week I will put $50 dollars toward a vacation.

Too Big	Just Right
I'll cut up all my credit cards. →	I will put all my credit cards away except for one.
I'll pay off my credit cards. →	Today I will pay cash when I go to the store.

It really is a good idea to start with small signs. If a sign is too big, the chances are that you will feel overwhelmed. Doctors will tell you that if you want to lose weight and keep it off, the best thing is to lose just one to two pounds a week. Studies show that people who stay to that recommendation keep the weight off. Those who lost a large amount of weight too fast not only gained all their weight back but also put more on. The same thing is true when noticing small signs of change. Those who take small, baby steps to their goal tend to be successful whereas those who take on too much too fast may fail.

Stop Counting Other People's Money

Money trouble feels lonely. You're convinced that everyone must be in better financial shape than you. The world seems to be dancing by without a care in the world, but not you. Friends and neighbors renovate their kitchens, take the kids to Disney World, and buy big-screen plasma televisions.

If you think you're adrift on a slab of ice all alone, think again. You are not as alone as you think. We may all have been fooled into believing that everyone is much better off financially than they actually are. According to the Federal Reserve Board, paying down debt accounts for 14.3% of take-home pay, the highest rate since 1986. Wait—there's more. The Mortgage Bankers Association of America states that in the last quarter of 2000, mortgage delinquencies rose to 4.5%—the highest delinquency rate since 1992.

Family Income Levels

2001	Personal income per capita	$30,511
2000	Median four-person family income	$65,381
2001	Consumer credit outstanding	$1,702.8 billion

Feeling a little less lonely? You should because many people are struggling just as much as you. Remember, the grass always looks greener on the other side. How many times have you found yourself thinking, "How can they afford that ski vacation every winter?" The truth is that they probably can't afford it any more than you can. Although they may not have the cash to pay for it, they do have something else—credit cards.

Credit Cards Can Be Hazardous to Your Financial Health

How did we ever survive before credit cards? They are so seductively easy. You don't need to worry about carrying cash. You can purchase items even if you only have a dollar left in your checking account. You can deal with that problem when the credit card statement arrives in the mail. The other great aspect of having a credit card is that you can take your time paying down your balance. The credit card company will be more than happy to let you make minimum payments as long as you also pay their 23 percent finance charge along with it.

Facing the Truth about Your Credit Cards

Name of Credit Card	Amount Owed	Annual Interest Rate	Minimum Monthly Payment	Actual Payment
Total Number of Credit Cards	**Total Amount Owed**			**Total Amount You Pay per Month**

If you're carrying a large balance on your credit cards you may want to consider consolidating with a lower interest credit card or home equity loan. There are credit card companies that will allow you to merge all of your debt onto one credit card, which is a sensible thing to do if you find yourself paying down credit cards with interest rates at over 14%. Ask yourself what makes more sense—paying a $7,000 balance at 13% interest or 21%? What's worse is if you've been making only the minimum monthly payment on your credit card debt. What typically happens is that you end up paying only the finance charge and never the actual balance. It's like rolling down the window of your car and throwing the money out.

Another way to go if you have a large credit card balance is to apply for a home equity loan. You do, however, have to be a homeowner. Not only will you save money in interest payments but also in federal income taxes, because the home equity interest is tax-deductible.

Here are a few suggestions to help keep your toes away from the credit card flames:

1. *Limit your number of credit cards*. Ask yourself this question, "How many credit cards do I really need?" Is it necessary for you to have a credit card for every major department store, discount store, gas station, and home improvement center? Some of us are walking around with 15 or 20 credit cards in our wallets and all those cards have balances. A smart piece of advice is simply to get rid of most of these cards. Limit yourself to one or maybe two major credit cards that charge the lowest interest rate and cut the rest up with a scissor.
2. *Start to use a debit card*. Unfortunately, we have become a credit card society. Without a credit card you could find yourself out of luck when it comes to renting a car or making airline reservations. Debit cards offer the best of both worlds. Debit cards give you the convenience of a credit card in that you can use them most everywhere. In fact, most debit cards look just like a credit card with a MasterCard or Visa logo. The important difference between a debit card and a credit card is that purchases are automatically withdrawn from your checking account. As handy as debit cards are, it is important to know that unlike credit cards,

debit cards are not protected against fraud like traditional credit cards.

3. *Contact your bank to request that your credit card limit be capped*. The psychology behind credit card companies is clever. They "reward" active cardholders by raising their credit limit. The cardholder thinks, "Gee, they really like me. They're letting me spend more." Here's the thing: just because you've been given a higher credit limit doesn't mean you have to accept it. In fact, you can refuse the increase or better yet, call all your credit card companies and have them lower the limit on each of your cards.

4. *Switch from a credit card to a charge card*. While a credit card allows you to make payments on a balance, a charge card, such as American Express, requires that you pay off your balance in full at the end of the month. The advantage to a charge card is that you won't be carrying a balance and growing finance fees. The only disadvantage is if you've over spent and can't afford to pay the bill at the end of the month.

5. *Resist the temptation to open a charge account in a department store just to get the initial purchase discount*. How many times have you been approached at the counter of a retail store and offered to open a charge account? The sales clerk sweetens the deal by offering an additional 10 or 15% discount on all purchases that day. However, the interest rates on department store cards are typically over 20%. If you already have an American Express, Visa, or MasterCard, there is no reason to add more plastic to your wallet.

6. *Resist, resist, resist*. Credit card companies are very clever at persuading consumers into spending more money. One of their telemarketers catches you off guard at home and the next thing you know, you're getting a new microwave plus a magazine subscription to *Pet World*.

7. *Practice the following line over and over until you have it memorized*: *"No thank you. Have a nice day—bye."* The next time a telemarketer calls to offer you a new credit card plus a trip to Great Adventures Theme Park, hang up the telephone. Don't feel guilty

about it. You are just one person on a list of possibly hundreds who will be called that day. When you hang up the telemarketer says, "Next."

Credit Card Reports and Ratings

Your credit history begins the moment you obtain approval on your first application. Perhaps it was your first car loan or credit card, or maybe a school loan.

The best way to obtain and keep a good credit rating is to pay back the money you owe on time. When you make late payments or fail to pay something back, the credit card bureau labels you as a credit risk. The fact that you are a risk will rear its head each time you attempt to get a credit card, borrow money, purchase a car, or get a mortgage.

The disturbing thing is that a bad credit rating stays in your credit history for seven years. This can happen if you miss a payment or even if you are just late with a payment.

Your local credit bureau updates your credit report each month by contacting your creditors. Creditors not only include banks and credit cards, but also utilities, landlords, and even hospitals. The bureau collects data on whether or not you pay bills and loans on time, whether or not you miss payments, and your current credit rating with that creditor. The data collected is filed in your credit history and will rear its head each time you apply for something.

What you should be aware of is that credit bureaus do make mistakes. That's why it is a good idea to get a copy of your credit report. Once you get it, review it carefully. If you find a mistake, which is certainly possible, contact the creditor who filed the report to the credit bureau and ask them to have the information corrected.

You can do that by contacting:

- Equifax: 800-685-1111 or www.equifax.com
- Experian: 800-397-3742 or www.experian.com
- TransUnion: 800-888-4213 or www.tuc.com

OUTSIDE THE BOX

Kathy—My husband and I lived in Boca Raton, Florida for 12 years before returning to New York. We always joked that there must be a ghost living in our house because things were always disappearing. It seemed like if you put something down one moment, it was gone in the next. Whenever something disappeared, we'd say, "The ghost must have taken it." One day a very large check disappeared off the kitchen counter. We were frantic and ripped the house apart looking for it. Six months later I found it inside a dog food catalog in my laundry room. The ghost must have been planning to buy a few rawhide bones. Finally, it hit me. There was no ghost—we were disorganized from being spread too thin. We couldn't keep up with our schedules and the result was internal chaos. There is just one thing I can't figure out to this day. How did my gold locket get inside a picture frame in my living room? Hmm.

Erica—Please . . . finances and taxes are my two least favorite subjects. In fact, I am dizzy just thinking about writing about them. Recognizing this, I suggest that if you are equally phobic, get a sense of balance here by hiring a good bookkeeper or accountant. With this load off your shoulders, and you in more of a supervisory role going over the numbers, you divert your energies elsewhere.

Digging Out

It's often not easy to face, but before you can take steps to get out of debt you first must know how much you owe. Taking wild guesses at how much you owe isn't the best plan because some debts, such as credit cards, include late fees and interest charges. The best route is to lay all your debt down in front of you. Know what you owe. Only then can you make steps to dig out.

There are three important points to remember when you are trying to settle your money problems. You need to:

- ▲ Calculate how much you owe
- ▲ Determine how you got into debt
- ▲ Set a plan for getting out of debt

If you have found yourself with unmanageable debt, it is critical to your recovery to know how you got there in the first place. Not everyone lands in debt the same way. While overspending can cause debt, it can also be caused by job loss, illness, or a failed business. And another thing—not all debt is bad. In fact, there is good debt and bad debt.

Bad debt refers to such items as car loans, credit cards, or borrowing money to take vacations. These are things you consume, pay high interest rates on, and will never see again. On the other hand, borrowing money to purchase land or real estate is considered good debt because you can expect a return for your investment. Taking a loan to pay for a college education is also considered good debt.

Use the following worksheet to list all your debts. The worksheet is divided by categories: auto, credit cards, home, miscellaneous, and taxes. The items listed with an asterisk reflect items considered to be bad debt. At the end of this worksheet you will be able to compare your good versus bad debt. Total your debt by category, and then tabulate your grand total.

***Auto**

Loan, car #1	$______________
Loan, car #2	$______________
Total Auto Debt	$______________

***Credit Cards**

American Express	$______________
MasterCard	$______________
Visa	$______________

Discover	$______________
Store card #1	$______________
Store card #2	$______________
Store card #3	$______________
Total Credit Card Debt	$______________

Home

Mortgage	$______________
*Appliances, installment plans	$______________
*Furniture, installment plans	$______________
Home equity loan	$______________
Utility bills (past due)	$______________
Total Home Debt	$______________

Miscellaneous

Medical bills	$______________
*Personal loans	$______________
Student loans	$______________
Other loans	$______________
Total Miscellaneous Debt	$______________

Taxes

Federal	$______________
State	$______________
Other	$______________
Total Tax Debt	$______________
Total of All Debts	$______________
Total Bad Debt	$______________
Total Good Debt	$______________

In this worksheet, we didn't include such routine expenses as current utility bills, food, and entertainment because living expenses are not part of your debt. However, your monthly costs do influence how much money you will have to pay down your debt.

Too Much of a Bad Thing

Setting a plan for getting debt under control includes knowing how much of your monthly income or take home pay is needed to pay it down.

- ▲ Tally up your monthly bad debt costs and for now, exclude the good debt. For example, suppose you earn $45,000 per year. A tally of your bad debt, such as car loans, credit cards, and personal loans, amounts to $15,000 of debt. Your bad debt is 33% of your total income.
- ▲ The formula looks like this:

$$\frac{\text{Debt}}{\text{Annual Income}} \times 100 = \text{Bad Debt Ratio}$$

$$\frac{\$15{,}000}{\$45{,}000} \times 100 = 33\%$$

Financial experts recommend that you keep bad debt below the 20% level. The higher this percentage, the greater the potential for your debt to grow and get out of control. You could be spreading yourself too thin and finding it harder and harder to keep up with monthly payments.

By now, you may be wondering how in the world did you get in such financial straits. As bad as you may feel, you took an important step by facing the debt and calculating how that amount impacts your salary. Now it's time to start digging.

- ▲ *Cut back on your unnecessary expenses*. This means eliminating or cutting back wherever you can on such things as club memberships, the gym, cable TV, magazine and newspaper subscriptions, video rentals, pedicures, and dinners out until you are financially stable.

- *Put your credit cards away and use either cash or a debit card*. Remember that credit cards helped you to get into this mess in the first place.
- *Go for the biggest debts first*. Start paying down the credit cards with the largest balances because of their high interest rates. The longer these debts exist, the bigger they will grow.
- *Consider getting a consolidation loan*. Getting a consolidation loan from the bank can help decrease the amount of money you are spending on interest payments. The catch here is to be disciplined enough to not start spending with your credit cards all over again.
- *Put something into your savings before you spend*. Get into the habit of putting money into your savings each week no matter how little it is. You will be amazed at how fast that amount grows. Better yet, arrange to have the money withdrawn from your paycheck and you will never miss it.

Taking Back Your Financial Life

It might surprise you to learn just how many people live paycheck to paycheck with little or nothing in a savings account. More alarming is how few people are saving for their retirement. Studies indicate that fewer than 20% of "Baby Boomers" are saving enough for their retirement. That means that a whopping 80% are going to be in a world of trouble come retirement.

You don't have to be on that wagon. Starting today you can do something different and begin to get your financial house in order. Sure, it may involve cutting back on your lifestyle, but think of the peace of mind you will have knowing that you are saving your money.

Before we ask you to reach for a pencil again, here are a few savings ideas that may help you:

- *Save your money before you get the chance to get your hands on it*. A very effective way to save money is to have it automatically withdrawn from your paycheck. That way you don't even have to think about it. Your money can be withdrawn and put into a U.S. savings bond payroll deduction plan or even mutual funds.

- *Look around to see where you can cut back*. It may seem insignificant, but even seemingly small expenses can add up over the course of a year. For instance, the home delivery of newspapers. If you find that you're throwing away more newspapers than you actually read, then perhaps you should cancel your subscription. Buy the paper when you have time to read it. The average home-delivered newspaper costs around $60 per month. That's $720 in savings over the course of a year. Do you have a membership to a gym but never go? Cancel it.
- *Put your annual raise or year-end bonus away.* Take the money you receive from a bonus or a raise and start a retirement or college fund. Consider it "found" money.
- *Pay in cash whenever you can*. When you reach for cash instead of a credit card the chances are that you will spend less. Paying in cash means no ongoing credit card balances and no finance charges.
- *Pay off high-rate debts first.* Pay down first any debt that carries a high interest rate such as credit cards and car loans. The longer you carry this debt, the more interest you will pay. As we mentioned earlier, consider obtaining a home equity loan to pay off large credit balances.
- *Free is good*. Why should you be paying for checking accounts when some banks offer free checking? You don't have to pay for checking, nor should you. Some credit card companies charge annual fees as high as $300 a year. Look for credit cards that offer no annual fees.

It's time to write down your financial goals. You may be asking, why should I write them down? I want to save money—period. Remember in the beginning of this chapter when we talked about fuzzy versus clear thinking? Saying that you want to save money is another example of fuzzy thinking. You can't get an active plan in gear with your head full of murky thoughts. Knowing what you want in clear terms sets the stage for success. Writing goals down on paper makes them more real, and things look different on paper. You need to be able to recognize the signs or mile markers that you are moving in the right direction.

Fuzzy Thinking	Clear Thinking
I want to save money from my paycheck.→	I will use automatic withdrawal to take $150 from my paycheck and place it into a savings account.

Write down your top five financial goals.

1. ____________________
2. ____________________
3. ____________________
4. ____________________
5. ____________________

Now ask yourself this question:

On a scale ranging from 1 to 10, with 1 being "the worst" and 10 being "great," how well would you say you are saving your money right now?

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If you answered with a 9 or 10, that's impressive. But stick around because there is always more to learn. Remember that life has a way of throwing you a curve ball just when you think you have it all together. There are always unexpected babies, job changes, divorce, home renovations, and other events that can affect your financial balance. It's always wise to keep your financial muscles well-toned. If your score was as high as a 9 or 10 then ask yourself this question:

How have you managed to be so resourceful with your money?

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What could you do to bring your score up half a notch, say to a 9½? If you gave yourself a 10, what can you continue to do to keep your score at a 10?

Many of us wouldn't give ourselves a high score when it comes to saving money. In fact, many would score themselves lower than they actually should. What score did you give yourself? A two? Three? Five?

Ask yourself this question:

What kinds of things have you been doing to keep your score at a two or five? Think about it—you didn't give yourself a zero so you must be doing a few things correctly. What have you managed to do right?

If you are thinking that there simply couldn't be anything in a score that low, you're wrong. If you didn't give yourself a flat zero it is because in some small ways you are doing a few positive things to save your money. It may feel small or inconsequential but change is built on tiny, baby steps. A step in the right direction is powerful because it takes you closer to your goals.

What is one more thing you can do to save money and bring your score up a point?

What will do you do to ensure that you keep doing that one small thing?

How will your life be different when you manage to get your score up a few points?

What will you be doing that you are not doing now?

Who will be the most surprised about these financial changes?

Balance Your Emotional Budget

As we have laid it out here, finances aren't a big mystery. Debt is bad; savings are good. Planning for the future is even better. IRAs and saving for kids' college funds, however, can seem like a pipe dream if you can't get a handle on your spending and debt. It's important, then, to take a look at your emotional budget.

An emotional budget, and in turn balancing it, involves examining your *feelings* about money. For instance, if you look at a closet full of clothes and think you have "nothing" to wear and then, despite your debt, go out to buy new clothes, there is some emotional component to your spending. If you are tempted to buy a car, a set of golf clubs, or an expensive vacation and put it on credit because you feel like you "have" to have it, this is also an emotional button.

The key to an emotionally balanced budget is to "see it through." Before you go shopping, before you shop on e-Bay, purchase a vacation, or go out for that ultra-expensive dinner, see it through to the next step—the bill arriving. Ask yourself "Is this a *want* or a *need?*" If it is a want, examine where those feelings are coming from. If it is a need, ask yourself if this newly purchased item will solve your debt problems and make you feel better in the long run.

A true sense of balance will come when you have made strides in reducing your debt, saved for the future, and stopped living from paycheck to paycheck, and purchase to purchase.