



THE ONLY BUDGETING BOOK

How to Save Money and Manage
Your Finances with a Personal
Budget Plan That Works for You

YOU'LL EVER NEED

Assess your spending patterns
Identify potential cash-flow problems
Set realistic goals and priorities
Reduce your biggest expenses
Eliminate debt and increase your savings

TERE STOFFER

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To Maxie, who has her own smaller budget (doggie day care, chew bones, lots and lots of food), but deserves an even bigger one!

Contents

Introduction: Your Budget Will Help You Get What You Want

Part I: Getting Started

Chapter 1: What Do You Need to Create a Budget?

Chapter 2: Setting Your Goals

Chapter 3: What Do You Have?

Chapter 4: What Are You Spending?

Chapter 5: What Do You Owe?

Chapter 6: Okay—You’re Ready to Create a Budget

Part II: Sticking to Your Budget

Chapter 7: Saving Around the Household

Chapter 8: Saving on Transportation

Chapter 9: Watching What You Spend

Part III: Expanding and Adjusting Your Budget

Chapter 10: Paying Down Debt

Chapter 11: Saving and Investing

Chapter 12: Merging Your Finances

Chapter 13: Baby on the Way

Chapter 14: Your Biggest Purchase

Chapter 15: Finding Money in Your House

Chapter 16: Saving for Vacations and Holidays

Chapter 17: Saving for College

Chapter 18: Saving for Retirement

Chapter 19: How to Survive Unemployment

Chapter 20: Sticking to Your Budget—No Matter What

Conclusion: Living the Life You Want

Appendix A: Debt-Restructuring Resources

Appendix B: Budgeting Websites and Online Tools

Introduction

Your Budget Will Help You Get What You Want

Establishing a budget is the act of deciding how much of your money you're going to spend on one item, how much on another, and so on, before you're actually in the position of spending the money. Sticking to a budget is the act of following through on those decisions. Creating a budget isn't easy, but sticking to any budget is extremely difficult.

The trick is to focus on the word *realistic*. It doesn't take much research or many difficult decisions to decide that you're going to spend \$200 per month on food. But if you've never spent less than \$500 per month on food, you'll blow your budget right out of the water the first week. Instead, before you begin deciding on the numbers in your budget, you'll need to fully assess your current situation, take a hard look at where you can cut back your financial obligations (both large and small), restructure your debt (if necessary), and see whether you can add income. Only then are you ready to decide realistically where every penny will be spent.

A budget is a tool, and like all tools, the results you get from it will be determined by how you use it. If you make a realistic budget and stick to it, you can watch your life move forward. If you set unrealistic budgetary expectations and don't even bother to follow through with them, don't think your financial problems are over.

Setting Budgetary Goals

Used correctly, a budget doesn't restrict you; it empowers you. You're going to establish a budget because you have financial goals that are not being met. For example, you may want to:

- Be able to pay all your bills from your paycheck—and maybe have a little left over
- Buy your first house

- Save for retirement but can't seem to find any extra money to get started
- Pay off all your credit cards and never get into debt again
- Give more money to your church or to other nonprofits
- Be your own boss
- Take a vacation
- Stop hearing from the hospital about your medical bills
- Buy a new—or at least newer—car
- Stay home with your baby
- Remodel part of your house
- Pay for laser eye surgery
- Finance at least part of your child's college education
- Buy health insurance
- Rebuild your credit
- Find a way to care for your aging parents
- Finally build your dream house
- Take a leave of absence from your job to work in the Peace Corps
- Go back to school and begin a new career
- Buy the downtown coffee shop when the current owners retire
- Get a whole new wardrobe

Are any of these your goals? If so, budgeting will get you there, even if the odds seem impossible right now. Even if you're stuck in a job you don't like, desperately want to go back to school, have to take care of an aging parent, and have \$19,000 in credit card debt, you can meet your financial goals—just as others have done before you. With a good budget, a little patience, and a whole lot of determination, you'll eventually get there.

PART I

Getting Started

Chapter 1

What Do You Need to Create a Budget?

You might be tempted to answer this question with something clever like “money.” But if you do that, you’re missing the point. Creating a budget isn’t about having money; it’s about figuring out what you’ve got, what you’re spending it on, and how you can realize your dreams.

In order to do this, you’ll need some basic tools.

A Computer

Of course, people made budgets in the days before computers, and you can still make a perfectly good one, sitting at the kitchen table with a pencil, a pad of paper, and a calculator. But why not do things the easy way? If you have a good, working computer, put it to work for you. Create a folder marked “Budget” (or something similar) so you know where all your files are going to go. If you have thoughts about your budget and about ways you can save money or extra sources of income you forgot about, note them down and toss them into the “Budget” folder. That way, they’ll all be centralized, and you can get at them easily.

One note of caution here: you’re going to be putting down in written form a lot of confidential information—not your password to your online banking account or something obvious such as that, but certainly information about your finances that you might not want other people to see. Make sure your computer’s security systems are strong. If possible, create a password protection for your “Budget” folder so only you (or anyone else you authorize) can get into it. Remember, these are your dreams we’re talking about. You don’t want anything to get in their way.

The Right Software

There are all kinds of financial software programs out there, each one

claiming that it's the *only* one you need. I won't recommend any one of them in particular, although if you decide to use one, get a clear idea before you buy it of what it's offering. After all, you're inaugurating an era of responsible spending, so you don't want to purchase something that isn't exactly what you want or need.

On the other hand, you can bypass all those bright, shiny programs and just do the work and construct the spreadsheets yourself. It's not hard—as you'll see in the following pages—and if you have a quality spreadsheet program such as Microsoft Excel, you'll be in good shape.

Spending and Income Records

One goal you're going to accomplish as you go through this book is keeping accurate and careful records of your expenses and income. However, it's possible that you've not been doing that up to now.

Assemble all your bills in one place, possibly in a folder or other container so you won't lose any of them. At your local office supply store, you can find expanding accordion folders, each slot marked with the name of the month. These are great for keeping bills, since you can file them as they come in based on when they're due.

In a separate folder or box, keep your pay stub records. This applies whether you're paid with physical checks or through direct deposit into your bank account. You need to see exactly what's coming in and when you're receiving it. Keep the stubs in the order in which you receive them. Also in this folder, keep stubs of any other checks you receive (tax returns, gifts, etc.) These records are essential both for budgeting and for tax purposes.

Most financial advisers recommend keeping your financial records for at least three years. This doesn't need to be a huge burden; just make sure you keep them sorted and somewhere you can have easy access to them if you need them. When it comes time to get rid of them, I strongly recommend purchasing an inexpensive shredder from an office supply store and shredding them. This way you minimize the possibility of identity theft.

■ BUDGETING TIP

One of the ironic consequences of the growth of technology has been that it's easier for people to obtain illegal access to your records. There are a lot of things you can do to protect yourself against this (see *How to Survive Identity Theft* by David H. Holtzman, Adams Media, 2010), but one of the most important ways is to shred your personal documents rather than just throwing them away. This particularly applies to old, expired credit cards. *Never* just throw them away. Shred them or, minimally, cut them into very small pieces. There's no reason to give identity thieves a helping hand.

A Quiet Place to Work

You're about to embark on one of the most important things you can do to realize your hopes and dreams. This is big. It's important. And to do it right, you need some peace and quiet.

Constructing a workable budget is something that takes concentration and hard thought. It's not easy to find those things in a room filled with shouting children, barking dogs, meowing cats, and a spouse who wants help with a clogged dishwasher drain or finding where the tie is that he threw across the back of a chair last Thursday.

Pick a time when you're going to be alone. Find a place that's comfortable and away from the tumult of your daily life. If you like, put on some nice background music or sounds; you'll make better decisions when you're relaxed.

As mentioned above, you're going to need an effective storage system for your income and spending records. Make sure they won't be disturbed or accidentally thrown out. Make clear to members of your family that what you're doing is important; after all, their dreams are at stake too.

All right. Got everything? Relaxed? Right. Here we go.

Chapter 2

Setting Your Goals

Budgeting is all about getting from where you are financially to where you want to be. And in order to do that, you've got to decide exactly where you'd like to end up. One of the reasons people often have trouble budgeting is that they haven't really sat down and thought realistically about the kind of life they want and how they might pay for it.

You're going to do things differently. You're going to start by asking yourself some hard questions.

What Do You Want?

Meet Billie DeSantos, age thirty-eight, whose budget we're going to peek at to see how this process works. Billie has worked at the same company for eight years, working up to management level last year. She bought a condominium six years ago, has a car payment on a three-year-old car, owes about \$2,800 in credit card debt, has some money in savings, is a single parent with two kids (ages ten and fourteen), and participates in the company's 401(k) retirement plan. Billie usually has enough money to pay the bills every two weeks, although the kids' growing expenses are starting to pressure the family's income.

Billie's decided that she needs a realistic, achievable budget with some goals. To that end, she's come up with the following list:

- Help the kids pay for college
- Pay off the credit card
- Retire
- Put away some income in a savings account

Notice that these are all pretty general. That's fine at this stage. You can afford to be general; you're just trying to get an idea of what you'd like your life to look like. Billie wants a life in which her kids are in college (or have graduated), she's largely debt-free, and she can retire

with some money to supplement her Social Security payments.

What's Realistic

Having set general goals for herself, Billie has to look at them again, this time with an eye to what's realistic and reasonable. Obviously, we'd all like to retire immediately and live in a beach house in Tahiti, but that's not going to happen. Being realistic about her goals doesn't mean Billie has to give up on them; she just has to add a time frame and some numbers to them. This is what she comes up with:

- **Help the kids pay for college.** Pay for half the expenses at one of the three large state universities (currently \$14,500 per year for tuition, fees, room, and board) or put that same amount toward a private or out-of-state college.
- **Pay off the credit card in nine months.** Get the balance to zero, and then if it's used at all, pay it off in full every month.
- **Retire from the company at age fifty (in twelve years).** Billie's current salary is \$49,248 after taxes but before deductions for insurance and 401(k) contributions.
- **Save six months of income over the next twelve years.** This money would be for emergencies only, not to be touched for any other expenses.

Let's go through these adjusted goals in a bit more detail.

Help the Kids Pay for College

It would be great to pay the kids' entire education costs so they didn't have to take on student debt. But Billie knows she can't afford that. Instead, she creates two alternative plans: one involving in-state tuition (on which she'll receive a discount); the other for a more expensive alternative but one that will mean the students taking on more debt. When we come to consider budgeting for college, we'll see there are some other alternatives as well as the ones Billie's come up with.

Pay Off the Credit Card in Nine Months

Currently Billie's credit card debt isn't too high. The important thing,

though, is that she wants to get out from under the constant interest payments. Again, she's realistic enough to know she can't simply pay the \$2,800 she owes in one lump sum; it's going to take some small payments spread over most of a year. But the important thing is she's got a plan.

Retire from the Company at Age Fifty

Retiring at age fifty is probably a bit unrealistic given her salary and age, although this is a goal she can adjust. Retiring at fifty means she has twelve and a half years before she can start receiving Social Security benefits, so this might be a bit tight. Still, it's a good place to start from.

Save Six Months of Income over the Next Twelve Years

At Billie's current rate of pay, this would amount to \$24,624 after taxes and before deductions. This is a reasonable sum to set aside for emergencies such as medical problems, accidents, or other unexpected events.

Stretch Goals

It's a good idea to have a stretch goal—that is something you aspire to but only can attain by working very hard. Billie has such an aspiration: When she retires, she wants to open a bed-and-breakfast in a small coastal town. B & Bs in similar towns currently cost about \$650,000 for the building and operation, but that price will surely rise in the next twelve years. On the other hand, if Billie is successful, the B & B will also provide a source of income during her retirement.

Income and Expenses

Now let's see just how realistic these goals are, given Billie's current income and spending patterns.

Billie's biweekly income after taxes (which provides her with a refund of about \$450 per year), company-sponsored health and dental insurance (at a cost of \$55 per pay period), company-sponsored life insurance for \$250,000 of coverage (\$30 per pay period), and 401(k) contributions (\$75 per pay period, matched by the company) is \$1,892,

which totals \$4,100 per month. Billie also has \$1,700 in savings.

Her monthly expenses are as follows:

Mortgage on the condo (30 years at 7.85%) includes taxes and insurance	\$1,492
Car payment (4 years at 5.9%)	\$342
Utilities	\$375
Food (including eating out)	\$675
Toiletries/haircuts	\$85
Spending money/allowances	\$200
Car maintenance/insurance/expenses (\$1,600/year)	\$133
Vacations (\$2,800/year)	\$233
Clothing (\$3,200/year)	\$267
Gifts and contributions	\$200
Credit card debt (\$2,800)	\$50
TOTAL	\$4,052

Ways to Reduce Debt

Billie's monthly obligations just about equal her monthly income, so to achieve her financial goals she'll have to eliminate some expenses. Here's what Billie decides to do:

- **Keep the car and car payment.** After paying off the car in one year, continue to drive it for five years after that, putting \$342 into savings each month for the next car. *No monthly savings.*
- **Cut down on utilities.** Get rid of her landline (go cell-only), and

install a programmable thermostat (at a cost of \$46) to save on gas bill. *Estimated monthly savings: \$83.*

- **Spend a maximum of \$125 per week on groceries.** Limit eating out to pizza or Thai takeout once a week. *Estimated monthly savings: \$175.*
- **Eliminate the small stuff.** Keep Starbucks visits to once per week, borrow magazines and DVDs from the library, and otherwise reduce monthly spending money to \$150 (\$100 for both kids' allowances; \$50 for Billie). *Monthly savings: \$50.*
- **Investigate car insurance options.** Lower annual insurance costs by \$400. *Monthly savings: \$33.*
- **Limit vacation spending.** Reduce annual amount to \$500 per year by being creative (see [Chapter 16](#)). *Monthly savings: \$191.*
- **Allow each member of the family \$600 per year to spend on clothing and shoes** (teaching the kids budgeting skills in the process). Any more than that, the kids will have to use their allowances or get part-time jobs. *Monthly savings: \$117.*
- **TOTAL Monthly Savings: \$649.**

Meeting Goals

To meet her financial goals Billie must increase monthly savings and investments:

- **Refinance the mortgage** on the condo at 5.8% for fifteen years, paying it off in twelve (so that it can be sold, debt-free, to help pay for the B & B, which will then be mortgaged for fifteen years). *Monthly increase: \$290.*
- **Use savings** plus increase in monthly payment to pay off credit card in nine months. *Monthly increase: \$122.*
- **Begin saving for college** in a 529 plan (see [Chapter 17](#)). *Monthly new expense: \$600.*
- **Save six months of income over the next twelve years.** *Monthly new expense: \$171.*
- **TOTAL monthly increase: \$1,183**

Revisiting the Sample Goals and Priorities

Billie is \$534 short each month, so it's time to revisit the listed goals

to see which can be changed or eliminated. Here's the revised list of goals (changes in italics):

- Help the kids pay for college.
- Pay off the credit card in *three* months, and begin saving for the kids' college fund *only when it's paid off*.
- Retire from the company at age *fifty-four* (in *sixteen* years) and open a bed-and-breakfast in a small coastal town.
- Put away six months of income in a savings account over the next *sixteen* years.

These changes mean the following financial adjustments:

- **Refinance the mortgage** on the condo at 6 percent for thirty years, with the understanding that in eight years (when college savings will no longer be necessary), the money currently used to save for college will be redirected to the mortgage. Making those large extra payments toward the mortgage after the kids finish college will result in the mortgage being paid off in eighteen years, not thirty. *Reduces monthly shortfall by \$310.*
- **Put away \$130 per month into savings** (instead of \$171) over the next eight years, and then increase savings with reduction in food, utilities, clothing, and other expenses because the kids will have left home. *Reduces monthly shortfall by \$50.*
- **Delay contributions to 529 plan by three months**, using that money plus funds from savings to pay off credit card debt. After credit card is paid off, begin saving for college in a 529 plan, putting \$418 (instead of \$600) away, with the understanding that all future promotions, raises, and tax refunds for the next eight years will go directly to the college savings account. *Reduces monthly shortfall by \$304.*
- **TOTAL monthly increase from current spending: \$0**

Billie has created a working budget. It won't be easy to cut back, but the family does still have some discretionary spending money, the kids' educational savings are in good shape, and Billie will realize the dream of owning a B & B in just sixteen years.

Billie's success depended on her ability to do two important things that are essential to the budgeting process: prioritize and compromise. She had to prioritize her goals and decide how much she wanted to achieve each of them. She had to balance long-term goals against short-term ones and decide which were immediately realizable and which were going to take longer. And she had to figure out what she'd be willing to give up in order to realize those goals. This process of prioritizing and compromising is at the heart of good budgeting.

Now that you see the basics of how it's done, let's roll up our sleeves and begin the work of evaluating what you have, what you're spending, what you owe, and how you're going to create a plan to realize your dreams.

Chapter 3

What Do You Have?

Before you can create a budget, you have to know every detail of your financial situation. Although you probably understand in general how much you spend and where you spend it, you may be amazed at how much you actually spend on certain items that don't seem like they could add up so fast.

The process we're going to undergo in the next chapters is designed to give you an unflinchingly honest appraisal of where you stand. If you have a tendency to become overwhelmed easily, keep a friend on standby whom you can phone for support, and keep upbeat music playing in the background as you put together your income and expenses.

What Counts as an Asset

We're going to start by looking objectively and calmly at what you have—that is, your assets. An asset is essentially anything that you own. That can include regular income (such as your paycheck); occasional income (such as an inheritance or a tax windfall); your home, if you own it; your car, assuming you own one; and all other material goods that you own. We're not proposing that you sell your home or your car—don't panic—it's just that it's necessary to know your total worth in order to figure out how to realize your dreams.

What *doesn't* count as an asset is money you can't count on. Getting lucky in the lottery this week doesn't count as income because you could just as easily get nothing and be out the price of a lottery ticket. The same thing is true of things you will or might own in the future. If an elderly relative has said that when she passes she's going to leave you her big house in the country, that's nice, but it still doesn't count as an asset now.

Some people argue about whether money you're owed should count as

an asset. I'm inclined to think not, because you have no guarantee of its being paid back. When the money's actually in your bank account, I think you can count it as an asset, but not until then.

Determining Your Income

We'll concentrate first on your income because that's the most immediate and obvious asset and the one that has the most immediate impact on your budget. Your income includes any money that comes into your possession and can be counted on in the near future. Your paycheck is considered income, but income isn't limited to a paycheck you receive from your employer—it is also a disability payment, a welfare check, a Social Security check, alimony, child support, self-employment income from a small business, and so on. Whatever money comes in—money that you can count on—is what you want to consider as income.

Determine How Often You're Paid

First, determine how often you're paid at work:

- **Weekly:** Common for temporary and contract work
- **Biweekly:** The most common way companies pay their employees—usually every other Friday
- **Semimonthly:** Often paid on the first and fifteenth of each month
- **Monthly:** One paycheck each month
- **Quarterly:** Four times a year—this is rare
- **Semiannually:** Twice a year—this is also rare
- **Annually:** Almost unheard of unless you're on a board of directors

If you're paid on commission and aren't exactly sure when your next check will be coming, review your income from last year and use that as a starting point. If, however, something has changed since last year that may cause you to make fewer sales this year, adjust accordingly.

If you get paid monthly (or even less frequently), you may have a harder time than most with your budget. The amount of your check may seem like a lot at the beginning of the month, but three or four weeks later, your expenses may have exceeded that check. A strict weekly

budget can really help.

Identifying Your Sources of Income

Worksheet 3-1 helps you identify all your sources of income, add them up, and figure them on an annual basis. In this worksheet, you calculate all of your income for a given pay period and multiply it to get an annual amount. Be sure to write down the net amount of each paycheck—that’s the amount you take home after the taxes, insurance, union dues, and other items are deducted.

Worksheet 3-1: Your Income

Weekly or Biweekly Sources of Income	Amount	Multiply by	Annual Amount
Weekly paycheck		52	
Biweekly paycheck		26	
Semimonthly Sources of Income	Amount	Multiply by	Annual Amount
Semimonthly paycheck		24	
Monthly Sources of Income	Amount	Multiply by	Annual Amount
Monthly paycheck		12	
Welfare check		12	
Disability check		12	
Social Security check		12	
Quarterly Sources of Income	Amount	Multiply by	Annual Amount
Quarterly paycheck		4	
Quarterly dividend from stocks		4	

Weekly or Biweekly Sources of Income	Amount	Multiply by	Annual Amount
Semiannual Sources of Income	Amount	Multiply by	Annual Amount
Semiannual paycheck		2	
Annual Sources of Income	Amount	Multiply by	Annual Amount
Annual paycheck		1	
Other Sources of Income	Amount	Multiply by	Annual Amount
Alimony		12	
Child support		12	
TOTAL:	\$		\$

Remember that this is not projected income. Don’t write down the income you *think* you’ll have after a promotion or other situation; what

you want to look at is exactly how much money you have to work with right now.

Your House as an Asset

Now that we've gotten a good picture of your income, let's consider some of your other assets. We'll start with your house, which is probably the most valuable thing you own. Note that this *only* applies if you own your house or condo. If you rent or have some other living situation, you can skip the part of this chapter that follows.

Later in this book, we'll discuss refinancing, which is the major way to save money in regards to your house. For right now, let's just discuss the basics.

Understanding Equity

Equity is the portion of your house that you own, mortgage free. You can calculate your equity as follows:

1. Determine the current value of your home. This amount may be higher, and in some cases, *much* higher, than the amount you paid for it. The value may also be lower than what you paid if the house was overvalued when you bought it or if the real estate market in your area has slumped. A mortgage company requires an appraisal, done by a professional, to determine this value, but you can guess, based on what homes in your neighborhood have been selling for. Check realtor sites and the newspaper to get a list of houses in your area and their asking prices. Then make an equivalency to your own house, using houses that have comparable square footage, number of bedrooms, and lot size. You don't have to be exact; this is to give you a ballpark figure, so you know what you're working with.
2. Determine the current payoff on your mortgage. If you don't receive a monthly statement or receipt that tells you the payoff amount, call your mortgage company and ask for it.
3. Subtract the payoff from the current value. This is the equity in your home.

Instead of calculating the current value of your home, some lenders use the value from when you bought the home. If that was more than a couple of years ago, the current value may be much higher (although it also may be lower, depending on how housing prices in your neighborhood have performed).

■ BUDGETING TIP

Starting in 2008, home prices in the United States generally declined to the point that many Americans found themselves owing more on their mortgages than their houses were worth (a situation known as “being under water”). Under these circumstances, homeowners found it much harder to obtain equity. This may be your situation; if so, it emphasizes the importance of being on a tight budget. If your home is worth less than the size of your current mortgage and you can still afford to make mortgage payments, assuming you don’t have to move, it’s best to stay in the house and wait for housing values to rebound.

Now let’s move on to your car, often the second most valuable asset you possess. If you own a car, go on line to look up its blue book value. Remember that cars depreciate swiftly, so don’t be surprised if today it’s worth a lot less than what you paid for it. Some factors that will affect its value include its condition, the mileage on it, and any “extras” such as a sun roof, advanced sound system, GPS, and so forth.

■ BUDGETING TIP

The term “blue book” in this context refers to Kelley Blue Book, which is the standard automobile valuation guide in this country. Their website is www.kbb.com. Before purchasing a used vehicle, look it up on their site and determine if the price being asked is a fair one.

Finally, add in any extra assets, including property you own and anything of special value, such as antiques or stamps. For right now, we’re going to concentrate on income, because that’s the part of your assets that most affects budgeting. But keep your valuation of your other assets handy because they represent elements in your financial picture.

Now you’ve found out how much income you have and what assets you own, including the value of your home and how much equity you

have in it and the value of your car. It's time to take the next step: investigating how much you spend and what you spend it on.

Chapter 4

What Are You Spending?

Income and assets are only half the equation in your budget. Now you need to tackle your spending. A word of caution here: Some people are tempted, when creating a budget, to fudge their spending numbers a bit. It can be embarrassing when you realize how much you're spending every week eating out or going to movies. But it's absolutely essential in the following worksheets that you are completely honest with yourself about how much you spend and what you spend it on. Don't worry about putting it down in black and white. You don't have to show it to other people if you don't want to. You need it in order to make a careful and honest evaluation of your outgoing funds. If you don't like where you're spending money ... well, I can show you how to fix that.

You have two ways to free up money for your financial goals: making more or spending less. Neither one is better than the other, right? Wrong! If 18 percent of your income goes to state and federal taxes, then for every extra \$1 you earn, you can use only eighty-two cents to pay off debt or save for the future. But if you can save \$1 of your expenses, you can apply *all* of it to your debt or put it into savings or investments.

■ BUDGETING TIP

Find out whether your employer offers direct deposit, a feature in which your check is deposited immediately into your bank account. Instead of a check, you receive a notice from your employer that the deposit has been made. You're more likely to save than spend if you use this feature.

What Are You Spending Every Day?

The method of totaling your expenses on Worksheet 4-1 is simple: You either report what you spent last week—day by day, expense by expense—or you start fresh this week and record every expenditure going forward. Use one worksheet for every day. If you record your expenses

this coming week, be sure you don't try to be "good" and spend less than you usually do.

Worksheet 4-1: Daily Expense Sheet

Day:			
Item	Amount	Item	Amount
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
TOTAL:	\$		\$

Categorizing and Prioritizing Your Daily Expenses

Now, review your daily lists and categorize them in the most logical way you can: coffee, breakfasts, lunches, clothing, toiletries, groceries, and so on. Use Worksheet 4-2 to record your findings. Ignore the "Priority" column until you've listed all of your expenses by category.

Worksheet 4-2: Daily Expense Summary

Category	Total Amount	Priority (1-5)
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
TOTAL:	\$	

Now go back and assign a priority to each category—5 being something you absolutely can't live without and 1 meaning you'd barely notice if

you no longer spent money on this one. Your priorities don't necessarily mean that you will continue to spend this money in the exact same way. They're just a way to understand your spending habits.

What Are Your Monthly Expenses?

Having looked at your weekly spending patterns, let's move on to those expenses that occur on a monthly basis. Recording your monthly expenses in Worksheet 4-3 works just like your daily ones, except that while daily expenses are often cash expenditures that you may not really notice, monthly expenses such as rent and utilities are more likely to be paid by check or electronic transfer. For these monthly worksheets, you'll want to go back through your receipts, checkbook register, and bank statements, and also use your memory. If, on the other hand, you simply record all your monthly expenses starting in January, you'll understand your January expenses on January 31, but you won't have a clear picture of your December spending until a year from now, and that's valuable time that you could use to reach your financial goals instead of getting deeper into debt. Instead, to more quickly get a clear picture of your monthly expenses, dig out your bank statements, checkbook register, receipts, and so on. If you use online banking, go back through the electronic register of your transactions.

Be sure not to double up on daily and monthly expenses. If you've already recorded a certain expense on your daily expense sheets, do not record it here. Use one copy of Worksheet 4-3 for each month.

Worksheet 4-3: Monthly Expense Sheet

Money On

You should now have a list of your expenses by category, with a priority attached to each one. If you have enough income to reach all of your financial goals and still spend money the way you currently do, you won't need this prioritized list. However, it's very likely that you can't meet your financial goals if you continue to spend in this pattern. (Remember Billie's experience, outlined in [Chapter 2](#).) If that's the case, use this list to choose the areas that you absolutely do not want to cut back on (these are the items that have a priority rating of 5). If you have too many items with a high priority to meet your financial goals, sub-prioritize those items so that you come up with just a few. Spending on these items will make all the cutbacks easier to swallow.

Remember that you are the only one who can determine your priorities. If you would rather drive an old car so that you can still afford to buy organic fruits and vegetables, do it. Remember also, while you're making these hard choices, that your goal here isn't to make your life less enjoyable. Instead, it's to find a path to realizing your dreams. Such a path may require you to make some sacrifices in the present in order to reach your goals in the future.

Occasional Splurges

So does keeping to a budget mean you can never go out for dinner again or spend a romantic weekend in a nice resort hotel? No, of course not. It just means that you need to budget for these things.

When you're tracking your expenses, look for these kinds of "splurge" items. How much have you been spending on them? Assuming you want to continue to do so, look for ways to splurge but without necessarily spending as much money. We'll talk more about this in [Chapter 9](#), which is concerned with needs versus wants.

There's nothing wrong with spending money to enjoy yourself—provided that this is what you want to do and that you've included it in your budget.

Chapter 5

What Do You Owe?

Among the most disturbing statistics of recent years have been those about how much credit card debt Americans owe. As of March 2012:

- Total revolving debt was \$803.6 billion
- The average indebted household owed \$14,517 in credit card debt
- More than 46 percent of all households carried some credit card debt

These are big numbers, and they may very well reflect your situation. In addition to credit card debt, there are many other kinds of debt. Among the most common:

- Mortgage
- Car loan
- Home equity loan
- Student loan

Before we go any further, you need to know the total amount of debt you're currently carrying. In Worksheet 5-1, indicate the *total amount* you owe on credit cards and store charge cards. Don't write only the minimum payments. Here's why: Suppose you owe \$5,000 to a credit card company, but rather than saying that you owe them \$5,000 this month, your bill says that you have to make a payment of \$65. That's your monthly payment, right? Wrong. Credit card and store charge card companies are in the business of making money, and one way is by having you pay a high rate of interest on your debt for as long as possible. Did you know that if you make only the minimum monthly payment, you might be paying on that \$5,000 for ten or fifteen years? And that's without charging even one more item to your account in all that time! Paying only the minimum is never going to help you get your financial situation under control.

Worksheet 5-1: Your Debt Obligations

Monthly Obligations	Amount	Multiply by	Annual Amount
Mortgage	\$	12	\$
Car payment	\$	12	\$
Student loan payment	\$	12	\$
Bank loan payment	\$	12	\$
Credit card payment #1	\$	12	\$
Credit card payment #2	\$	12	\$
Credit card payment #3	\$	12	\$
Credit card payment #4	\$	12	\$
Credit card payment #5	\$	12	\$
Personal loans (from parents, friends, etc.)	\$	12	\$
TOTAL:	\$	12	\$

On a separate sheet of paper or a separate worksheet, list all your credit card or store charge card bills, including the following information:

- Name of the company issuing the card
- Total amount you owe on the card
- Your monthly payment
- Interest rate on the card
- Any additional fees associated with the card (late fees, for example)

Now order the list, with those cards bearing the highest interest rate on top. These are the cards you will pay down first; the lower-interest bearing cards are still debt you probably would like to retire, but they're not as important as those carrying high interest.

Remember what we said earlier: In order to retire debt, *you have to pay more than the minimum payment*. By only making minimum payments, you're financially treading water, while paying thousands of dollars in interest to the credit card-issuing companies. In [Chapter 10](#), we'll discuss how to deal with your debt. But for right now, you've taken the first essential step of putting down in one place what your debt obligations are.

Now that you've completed these various worksheets, you're going to integrate all of your various spending obligations into one worksheet,

Worksheet 5-2. This will tell you what you're spending money on and how much you're spending per week and per month. You'll use the information from worksheets 4-1, 4-2, 4-3, and 5-1 to complete this worksheet.

Worksheet 5-2: Your Obligations

Weekly Obligations	Amount	Multiply by	Annual Amount
Groceries and household items		52	
Day care		52	
Contributions to church or other		52	
Weekly rent on furniture or appliances		52	
Entertainment/baby-sitting		52	
Eating out, including coffee and lunch		52	
Monthly Obligations	Amount	Multiply by	Annual Amount
Rent or mortgage		12	
Car payment or lease		12	
Electric bill (average)		12	
Gas bill (average)		12	
Water bill		12	
Sewer bill		12	
Trash pickup bill		12	
Cable/DSL/satellite bill		12	
Telephone bill		12	
Cell phone bill		12	
Bank charges (debit card, fees, etc.)		12	
Haircuts/manicures/pedicures		12	
Home equity loan		12	
Other loan		12	
Credit card or store-charge card bill (total due)		12	
Child support or alimony payment		12	
Quarterly Expenses	Amount	Multiply by	Annual Amount
Car maintenance		4	
House maintenance		4	

Semiannual Expenses	Amount	Multiply by	Annual Amount
Auto insurance		2	
Property taxes		2	
Wedding gifts		2	
Events to attend		2	
Clothing and shoes		2	
Annual Expenses	Amount	Multiply by	Annual Amount
Homeowner's or renter's insurance		1	
Vehicle registration and excise tax		1	
Car repair		1	
Holiday gifts		1	
Birthday gifts		1	
Vacation		1	
Club memberships		1	
Other Expenses	Amount	Multiply by	Annual Amount
TOTAL:	\$		\$

Putting Income and Financial Obligations Together

The following worksheet is one of the most important tools for pinpointing why any financial troubles exist for you. In Worksheet 5-3, you combine information from Worksheets 3-1 and 5-2 (see the two preceding sections), and find out whether you have more obligations than income (which means you're probably in or close to being in debt), or if you have more income than obligations (which is the first step toward a healthier financial picture).

Worksheet 5-3: Your Income-to-Obligations Ratio

Your annual income (from Worksheet 3-1)		\$
Your annual obligations (from Worksheet 3-2)	-	\$
Your net income (may be a negative number)	=	\$
Your annual income	÷	\$
	×	100
Your income-to-obligations ratio (may be a negative number)	=	\$

After you've completed Worksheet 5-3, let's assess how you did.

Ten or Greater: Your Income Far Exceeds Your Debts

Assuming you were honest in your assessment of your income and obligations, you should have no trouble establishing a budget you can live with. If you can't seem to come up with enough money to pay the bills each month or your credit card debts are growing, check out [Chapter 4](#) to find tools for tracking your daily, weekly, and monthly expenses to get a handle on where your money is going.

Zero to Nine: Your Income Just Barely Exceeds Your Debts

What this means is that, on an annual basis, you just barely get by. If you have trouble paying your bills each month, you may have one of two problems. Either your expenses are actually higher than you think (see [Chapter 4](#) for ways to track your expenses accurately), or you may have cash-flow problems (discussed in the following section).

Negative One to Negative Ten: Your Debt Just Barely Exceeds Your Income Many people are living just a little above their means. In order to do this, they use credit cards, store charge cards, home equity loans, short-term loans, and so on, to make ends meet. The problem is that if you're short \$300 per month and use credit cards to pay for groceries or clothing, at the end of the year, you'll be \$3,600 in debt. Ten years later, even with a credit card that gives you a decent interest rate, you'll be over \$83,000 in debt!

Negative Ten or Less: Your Debt Far Exceeds Your Income

This situation often occurs during in-between times in life. For example, when you're in college or have just graduated but can't find a job, you're in between living off your parents and working full time to pay your own expenses, but you may still have the same spending patterns that you had when your parents were paying all your expenses. You may also have a lot of debt due to a layoff or medical leave, or when you have one huge debt hanging over your head, such as a school loan or unexpected medical bill. See [Chapter 10](#) for tips on dealing with crushing debt.

■ BUDGETING TIP

The major reason people get into debt is that they spend more than they earn. Seems simple, right? Well, not really. For most people, income is fixed—you know how much your paycheck will be. But your expenses can vary greatly, depending on, for example, how many times you eat out, whether you update your wardrobe, and how many long-distance calls you make.

Identifying Potential Cash-Flow Problems

Often, if your income just barely exceeds your obligations, on paper you look like you'll get by just fine, but in reality you may find yourself coming up short at certain times of the year.

Suppose, for example, that you have an income of \$26,000 per year (after taxes) and \$25,000 in obligations. A problem often arises when one of your periodic expenses, such as car insurance, is due. Technically, you might have enough income from January to December to cover your car insurance, but if your insurance bill arrives in February, you may not have had time to put enough money into savings each month to cover this expense. This is called a *cash-flow problem*, and in order to manage this situation successfully, you have to reduce your debt (or increase your income) to the point where you're living far enough below your income that you don't have trouble paying your large periodic expenses.

Take a Break If You Need It

If your financial picture is rather bleak, this chapter may have been difficult for you. The next chapter, which shows you how to establish a written budget that you're going to be living with for the next few months and years, probably isn't going to be any easier. Even if you're the type who likes to plow through one chapter to the next, you might want to take a break for a few hours or overnight. Don't give up here, though! Just take a short break, inhale deeply, and get ready to change your life for the better.

Chapter 6

Okay—You’re Ready to Create a Budget

The reason you create a budget is because you have financial goals. These may range from eliminating debt due to medical bills to saving for retirement to buying your first house. No matter what your financial situation, you have financial goals, even though you may not think of them that way. If you have a particular lifestyle you want to live, places you want to go, or people you want to help, you have financial goals.

These financial goals are the tools you will use to build your larger life goals, as we discussed in [Chapter 1](#). For some people, of course, financial goals are ends in themselves. But for most of us, we want to use our finances to do something—whether it’s to retire and run a B & B like Billie DeSantos in [Chapter 2](#) or something else.

When you create a budget, you keep all of your financial goals as the central focus, figuring out how to cut your current expenses—or increase your current income—to get you on track to meet those goals. How you decide to cut back or add income will be as unique as your goals are. You may make very different choices than your neighbors do about how, how well, and where you’ll live. Every decision you make will be specific to your financial goals and your current financial situation, which no one else has to know about or agree with. If other people question your decisions, just smile! They don’t have the same goals you do, and you know you’re on the right track to achieving your dreams.

Keep in mind, though, that you may not be able to meet every one of your goals if you also want to maintain your current level of spending. (Remember that Billie DeSantos had to substantially adjust both her goals *and* her spending habits in order to get where she wanted to be.) Budgeting is often the art of compromise: You have to decide what to give up in order to get what you want.

When a Deal Is Not a Deal

To stay above water financially, you have to spend less than you make. This simple point is the most important principle for constructing and living within a budget. You simply cannot meet financial goals if you don't live within your means.

Yet many Americans spend more than they make, and it often starts with just a few bad decisions. Here's an example. A few years ago, a financial adviser on television said that as long as interest rates on new cars stayed at 0 or 1 percent (which car companies were offering at that time), the best financial investment a person could make would be to buy a new car. In fact, the adviser suggested that you'd have to be crazy not to take advantage of this situation.

Now imagine someone watching that program who owned a five-year-old car that was completely paid off and ran fine; but hearing that financial advice, our car owner decided to go out and buy a new car. After all, the opportunity for financing this low might never come again. So, the car owner trades in the perfectly fine car and gets a great deal on a new car. However, two months later the car owner begins to feel the pinch. Monthly car payments go from \$0 (on the old car) to \$318, and insurance costs go up \$168 per year. Before, our car-buying friend always had a bit of extra money every month—enough to put \$200 in savings and still have a little left over. But now there's nothing to go into savings and no extra cash around. In fact, even in the first few months, the car owner is beginning to put a few groceries on the credit card just to get by. Before long, this one innocent purchase has led to a spiraling financial problem.

The car was not the best investment our car owner could have made. A far better decision would have been not to even think about getting a new car until the old one had a significant problem. The drop in interest rates saved our car owner money, but the car itself—at that particular time—was something our friend didn't need or plan for.

Remember: A product is only a good deal if you've planned for it and can afford it within the context of your other financial goals. Nothing—not low interest rates, a sale on shoes, the house of your dreams—is ever a good deal if it requires you to spend more than you make.

Spend Money Only on Budgeted Items

After you set up a budget, you can spend money only on the items that your budget says you can spend money on, and this drives most people crazy! They feel as though someone else is controlling their lives, or that they're living in a straitjacket. But, while budgets can be constricting, the only force controlling your spending is you—or, to be more exact, your financial goals.

Suppose your primary financial goal is to take a two-month trip to Europe. You're sure that you want to do this, and your budget reflects it. Because you'll be taking the time off work without pay, you're saving not only for the trip but also for the income you'll miss while you're gone. You've figured out that if you give up your biscotti and coffee every morning, turn down your thermostat, and stop buying clothes for a year, you'll be able to do it. But a couple of months into the year, you decide that this “crazy” budget isn't going to tell you how to run your life and that no one should live without biscotti and coffee in a less-than-warm house while wearing old clothes.

What exactly has happened here? Basically, your short-term financial goals have a higher priority than the longer-term goal of wanting to go to Europe. So, the budget has to be reworked to reflect those financial goals, because if biscotti and clothes aren't in the budget, you can't spend money on them and still make it to Europe. In order to spend euros a year from now, you can't buy items now that you've agreed to give up.

Save for Unexpected Expenses

People often get into financial trouble because they don't expect the unexpected. By intentionally saving for unexpected expenses, you can break this cycle. An unexpected expense may be an auto accident that requires you to pay your deductible or a repair to your home. An emergency can even be a planned expense that comes due before you expect it.

For example, suppose you planned to take a vacation later this year. Unexpectedly, your best friend is attending a conference in the Bahamas and asks you to go along, stay for free in the hotel, and pay only airfare and food. You decide that now is a better time to take an inexpensive

vacation. However, given your goal to get out and stay out of debt, you don't dare put the trip on credit cards. This trip will be a much easier decision for you if you have money in the bank to borrow against.

Ideally, you should keep six months' income in the bank. If there are two wage earners in your family, keep six months of each person's income in savings. Yes, this is a lot of money, but this much money creates choices in your life. You're never going to feel stuck again: If you're laid off, you have time to find a job you really want; if you've been looking for a new house and find the perfect one, but the current owners won't wait for you to sell yours first, you can use your savings as a down payment, replacing the savings after you sell your existing house.

The trick to having money available for unexpected expenses is twofold. First, you never dip into your savings unless you're faced with a truly unique situation. A shoe sale at your favorite department store is not a unique situation. And if you have time to plan for an unexpected event, save in advance by changing your lifestyle to free up more money for savings, but don't dip into your savings unless you absolutely have to. The money in your savings account is for that oh-my-gosh-what-am-I-going-to-do-now situation.

■ BUDGETING TIP

Make sure that you have an allotment for savings in your budget, even if it's just \$10 per paycheck for now, and work toward eventually saving up to six months' salary for every wage earner in your household.

The second part of the trick to keeping savings on hand for unexpected events is always to replace it after you use it. If you have six months' salary in the bank and you use one month's salary to make up the difference between your disability pay and your normal pay, when you get back to work full time, immediately begin replacing that one month's salary.

These two concepts—leaving money in savings for unexpected expenses and replacing any money that you borrow from your savings when unexpected situations arise—are not common in our society. You'll

find that the majority of Americans don't think they're capable of doing this. If they see they have money in the bank, they'll spend it on whatever they think will make their lives better at that moment. But the truth is, having this security gives you the power to choose, and that's the greatest power you'll ever have—much greater than the big-screen TV for the Super Bowl.

Revisiting Your Goals and Priorities

As you go through the budgeting process, you may find yourself revising your long-term financial goals and your shorter-term spending priorities. This revising doesn't make you a bad person! It's just the reality of everyone's situation: We each have a set income, and our desires to spend exceed our income.

Suppose, for example, that you have the following goals: Save for a small down payment on a house in six months; buy new furniture for your house when you move in; and within two years, increase savings so that it equals six months' worth of income. You also have your eye on buying a new car in a year, and you've recently added this to your list of goals. Suppose that with your current income, you spend everything you make. Well, in order to save \$10,000 for a down payment on a house in six months, you're going to need to save almost \$1,700 per month. The furniture is going to cost \$500 for six months, saving six months' salary is going to require \$900 a month for two years, and the new car, minus the trade-in on your existing car, will take \$1,200 a month for a year. Altogether, this is almost \$4,300 a month. Unless you're currently living an incredibly lavish lifestyle, the chance of being able to cut \$4,300 out of your current spending to find this money is slim.

You have two options. You can find a way to make more money by getting a second job, doing freelance work, starting your own part-time business, working overtime, or finding a new job that pays more money. That is one way to meet your goals, but keep in mind that whenever you work more hours, you give up something very precious—time. If you have the time to spend, if you are planning to work the extra hours only for a short while, and if working more hours isn't going to jeopardize your health, wreak havoc on your relationship with your kids or spouse,

or take you away from a hobby that you love, perhaps it will be okay. But if you have to commit to this lifestyle for ten years, you may find it unacceptable.

The other option is to go back and revisit your spending priorities and financial goals. Even if you've cut your expenses as much as you think you can, maybe you can still cut back some more. Even if one of your spending priorities is to be able to talk on the phone for an unlimited amount of time with long-distance friends and relatives, perhaps you could talk during free weekend minutes or switch to e-mail part of the time. Or you may decide that because your financial goals are very important, you're willing to give up this expense, even if you've previously decided that it was a high priority.

On the other hand, you may decide to re-evaluate your goals, to look for changes there. Perhaps, for example, you decide to buy the house in four years instead of six months, which gives you much more time to save for the down payment and the furniture. Perhaps, because both the house and the phone calls are important enough, you can make do with your existing car for several more years. Perhaps you keep working toward getting six months' salary in the bank, but stretch that goal out to ten years instead of two.

Create a Budget You Can Stick To

If you haven't yet written down your goals, you must start there. On a piece of paper or a spreadsheet make a list of them. You'll need to know your goals before you can establish a budget.

■ BUDGETING TIP

To be useful, your goals must be in financial terms, with actual dollar amounts attached, and must have set deadlines attached to them. Otherwise, what you call goals are really only pipe dreams.

What Expenses Are You Willing to Cut?

If you haven't yet looked at all of your expenses and decided which are priority items that you want to keep in your budget, first take a look

at [Chapters 4](#) and [5](#). Come back here when you're done.

Knowing Your Income

Before you can establish a budget, you have to know exactly how much money you have coming in every month from your employer after taxes, union dues, health insurance, 401(k) contributions, and so on. [Chapter 3](#) helps you track all this information. If you haven't already done this, go there before coming back to this section to work on your budget.

Getting Started

To make your first stab at a budget, simply fill out Worksheet 6-1.

Worksheet 6-1: Your First Budget

Monthly income (or annual income divided by 12)		\$
Monthly financial obligations	-	\$
Monthly amount needed to meet goals	-	\$
Balance (may be a negative number)	=	\$

Checking the Balance

If the balance in Worksheet 6-1 is a positive number, you're done! You've established a budget for yourself that, while perhaps not easy to stick to, will certainly be doable.

If, however, the balance is a negative number, you have an unbalanced budget and need to look again at your goals, expenses, and income. (You may want to use a pencil for the worksheets in the two following sections in case you have to revise them again, and again, and again!)

Revisiting Your Goals

Now is the time to go back through your goals from [Chapter 2](#) and rework them if you can. Wherever possible, change the amount of time or money needed, starting with your lowest-priority items. Worksheet 6-2 can help.

Taking a Harder Look at Your Expenses

Telephone bill	\$		\$
Cell phone bill	\$		\$
Bank charges	\$		\$
Haircuts/manicures/pedicures	\$		\$
Home equity loan	\$		\$
Other loan	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Child support or alimony	\$		\$
Car maintenance	\$		\$
House maintenance	\$		\$
Auto insurance	\$		\$
Property taxes	\$		\$
Gifts	\$		\$

Monthly Expense	Amount	Ways to Reduce	New Amount
Events to attend	\$		\$
Clothing and shoes	\$		\$
Home insurance	\$		\$
Vehicle registration	\$		\$
Vacation	\$		\$
Club membership	\$		\$
Club membership	\$		\$
Club membership	\$		\$
Total:			\$

Deciding Whether You Can Increase Your Income

A final way to balance your budget is to find ways to increase your income. We'll talk in detail about this later on. For now, it suffices to say that you'll need to be sure that these opportunities for added income are actually in the bag—don't count on "possible" income when budgeting.

Taking a Second Stab at a Budget

With revised goals and a new spending plan, you're ready for version two of your budget. See Worksheet 6-4.

Worksheet 6-4: Version Two of Your Budget

WORKSHEET 6-4: VERSION TWO OF YOUR BUDGET

Monthly income		\$
Monthly financial obligations	–	\$
Monthly amount needed to meet goals	–	\$
Balance (may be a negative number)	=	\$

Checking the Balance—Again

If your balance is now positive, you're done! Congratulations on working through your first budget. Chances are, though, that it's still negative, and you'll have to continue this process through many renditions. Start again: Revisit your goals, look at your expenses, and decide whether you can increase your income.

Don't get discouraged by all this revising—this is the essence of budgeting. If the process were easy, that is, if you could come up with a workable budget on your first try, people wouldn't have trouble living with budgets. Remember what we said earlier: Budgeting is about compromise. You can't get something unless you give something.

Continuing This Process until You Have a Budget

Worksheet 6-5 gives you another chance to work through a budget, but do this one in pencil because you'll probably need to work through the numbers again. Keep going until the budget is completely balanced and one you're able to live with. The key words in this section are "able to live with." Never forget that you are going to live with this budget every hour of every day until the day you meet your financial goals. If you don't think you can do that, revise your budget again!

Worksheet 6-5: Version Three of Your Budget

Monthly income		\$
Monthly financial obligations	–	\$
Monthly amount needed to meet goals	–	\$

Balance (may be a negative number)	=	\$
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PART II

Sticking to Your Budget

Chapter 7

Saving Around the Household

While you've going through the process of evaluating and re-evaluating—and re-re-evaluating—your budget, it's time to take a look around your household with an eye to saving money.

What you do in this regard is completely driven by how you balance what you're doing to save money against your short-term and long-term goals. If you decide that, even if it's expensive, you just can't give up your cable package, that's fine. It just means that cable TV is more important to you than some of your other goals. There's nothing wrong with this, and you should not judge yourself or tolerate others judging you for making decisions like that.

My goal in this chapter is not to demand that you save money in all the ways I suggest; it's to give you options that will enable you to save money if you decide to take advantage of them.

Prepare Your Own Meals

Even a generation or two ago, eating at restaurants was reserved for special occasions, and eating prepared foods was practically unheard of except among a few lifelong bachelors. Today, it's actually less common to make a meal from scratch than it is to eat at a restaurant, get takeout or fast food, or prepare a meal by mixing together ingredients from a box. Do people actually make meals from scratch?

Yes, they do. One way to save hundreds of dollars every month is by making your own food. You don't even have to be very good at it: Even the least-seasoned chef can boil pasta and mix it with tomato sauce or broil a piece of chicken or beef. If you can make toast, you can cook. And the more you cook—even the easy stuff—the better you'll get at it; then you can progress to more difficult meals.

The trick, of course, is that you have to take time out of your life to shop and cook, and most people don't have time these days. But if you're

trying to meet your financial goals and don't have the opportunity to make more money, you can save a great deal of money by taking the time to cook. Keep in mind that because you pay income taxes, you can gain more ground by saving money than by earning more money.

Seeing How Much Eating Out Really Costs

To find out how much you can save, think about a plate of fettuccine Alfredo with chicken from a local restaurant. Visualize what's in a plateful, even if you don't know much about cooking. Offhand, you might guess that there's about a quarter pound of fettuccine, half a cup of cream, two tablespoons of butter, a quarter pound of chicken, and maybe a few other ingredients, but that's close enough. List the ingredients in your favorite dish on Worksheet 7-1, and the next time you're at the store, price it out. You can make a big portion of fettuccine Alfredo for about \$2.90—it will cost at least \$12.95, plus a tip, at your local Italian restaurant.

Worksheet 7-1: Grocery versus Restaurant Comparison

Ingredient	Price to Buy at Store
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$

	\$
	\$
	\$
TOTAL:	\$

Of course, you won't get your meal prepared and served, but you also won't have to drive to the restaurant, wait in line, or pay a tip. Want to save money? Prepare your own food!

Clean Out the Fridge

If you tend to eat out a lot (or eat in with pizza, Chinese takeout, or other fast food), you may feel guilty about the fact that you're not cooking. To ease this guilt, you may go grocery shopping every week or two and buy vegetables, meats, dairy products, and other perishable foods, with the intention of changing your ways; but you don't change your ways, and the perishables go bad, and you throw them all out. A few weeks later, you start this vicious circle of wasted money all over again.

Here's the thing: Either decide you're going to have someone else cook for you, or decide you're going to cook for yourself. Neither way is inherently good or bad, but don't do both and waste food in the process. If you buy the food, stop eating out until it's gone. If you know you're going to eat out, don't buy the food. You could save a few hundred dollars a month.

Brown-Bag It

If you go out to lunch every day—or even a few days a week—you can save quite a bit of money every month by bringing your lunch from home instead. It doesn't have to be fancy; in fact, if you make just a bit more than you need for dinner every night, you can pack the leftovers for lunch the next day. Or pack a sandwich, yogurt, and fruit—simple and cheap!

To find out how much you really spend on lunch, review your daily expense sheets in [Chapter 4](#). Then make a sample menu for your lunches and write the ingredients in Worksheet 7-2, comparing that total to your eating-out total.

Worksheet 7-2: Brown-Bag versus Eat-Out Lunch Comparison

Ingredient	Price to Buy at Store
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
TOTAL:	\$

 BUDGETING TIP

If eating out at lunch is a big part of your social life, don't stop it completely. Instead, limit it to

one day per week or a couple of days a month.

Coupons Are Your Friend

Coupons are free money, but only if you use them for products you would have purchased anyway. Companies offer coupons because they want you to try their products, and they figure they'll give you a bonus for taking a risk, but this isn't how you save money on food. Instead, as you peruse coupons, cut out only the ones for products you already use or products that you're willing to use because you're not loyal to another brand. If, for example, you couldn't care less what kind of detergent you use, cut out all laundry coupons and use the ones that save you the most money. But if you never eat anything but Sugar Cereal for breakfast, don't cut out coupons for Fruity Cereal, no matter how much of a savings you'll get. All that will happen if you do cut out those Fruity Cereal coupons and use them is that the cereal will sit on your shelf until it goes bad. Coupons should save you money, not promote waste.

Cutting out coupons is just the first step. To actually use them, you'll have to have them handy and organized. One cheap, simple way to keep them accessible is to put them in a 3 × 5 card-file box, organized by category. File the coupons under their appropriate categories, placing them in order by expiration date, so that the coupon that will expire first is the one you see first when you flip to that category. When you add new coupons, flip through each category to see whether you have any expired coupons that you need to toss out. Keep the box close to your keys so that you never forget to take it into the store with you. Or, if you tend to forget it, keep it in your car.

■ BUDGETING TIP

Look for coupons in the Sunday paper, keeping in mind that coupons usually aren't offered the weekend of, or just before, a major holiday. Also, if you're buying the paper only for the coupons, make sure you're saving more than the cost of the paper each week. Also look for electronic coupons such as Groupon. Visit the Groupon website at www.groupon.com.

Look for Food Bargains

The Sunday newspaper can be a great source of information about the cost of products in the stores in your area. Before you peruse the sale flyers, write out your weekly or monthly shopping list. Then look through that week's advertisements, noting on your shopping list which store has the best price on the items you need. Then make a quick stop at each store to buy only the items on sale that week.

Price Matching

If you have a store in your area that price matches—and most now do—you don't have to do all that running around. You simply inform the checkout clerk that you're going to price match an item, and you get the least expensive advertised price on that item.

Buy Sale Items in Quantity

If you see a great sale price on an item that you use a lot—and if the item isn't perishable *and* you have the space to store it *and* you have enough money in this month's budget to pay for a large quantity *and* you're sure beyond a doubt that you will actually use this item up—buy a lot at the sale price. Suppose you make a tuna fish sandwich for lunch every day and usually pay ninety-eight cents for each can of tuna. If you see it on sale for forty-nine cents, buy as much as you can store and afford, because you know you'll use it. But if you see bananas on sale, buy your usual amount. You can't possibly use up a large amount of bananas before they go bad.

■ BUDGETING TIP

Constantly look for ways to use food that you know you're not going to eat right away. If a few of the bananas you bought start to go brown, make a loaf of banana bread. Then put it in the freezer and bring it out when you want a dessert or when you've got some company.

Join a Wholesale Club

One way to get sale prices every day is to shop at a wholesale club, such as Sam's Club or Costco. If you decide to go this route, make sure you're saving more money than the annual membership fee, and be sure that you don't spend more than you should in the name of "But it's such

a good deal.” Wholesale clubs can ruin your budget, so beware!

■ BUDGETING TIP

Some wholesale clubs offer memberships only to employees of small businesses, schools, churches, credit unions, and other groups. They also sometimes offer memberships to family members, friends, and neighbors of members. Others are open to the public. To join, call your local wholesale club to find out the membership requirements.

If you do buy at a wholesale club, apply the same logic that you would for buying large quantities of any sale item at your regular store: Buy bulk quantities only if you have the storage space, are sure you'll use it, can keep it from spoiling, and have the money in your budget to pay for it.

How Does Your Garden Grow?

If you eat a lot of veggies, you know they can be expensive. Yet for just a few dollars for the seeds, you can grow an entire garden of fresh vegetables every year. And if you have extras of easy-to-grow vegetables like tomatoes, you can freeze them for use in pasta sauces in the winter.

Using Your Patio or Balcony

Even if you don't have an extra acre out back to grow a garden, you can still raise vegetables. Many veggies grow well in outdoor containers on a patio or balcony, if you're careful to keep them well watered, well drained, and protected from freezing weather at night.

Growing Organically

To save money and protect your health, grow your vegetables organically. The trick to gardening without chemicals is to start with excellent soil. Improving your soil may cost you some money, but it'll pay off for years to come. To be sure, however, that you're actually getting more benefit from your garden than you're paying in soil, seeds or plants, and equipment, total up what you get out of your garden the first year and compare that to what you spent to get started.

An alternative to growing your own garden is shopping at a farmer's market in your area. You'll usually pay lower prices than in a grocery store for fresher, less-processed fruits and vegetables. And you can still freeze the bounty when you find especially good deals on fresh produce.

Turn the Thermostat Down (or Up)

Now let's turn to another huge domestic expense: your heating and cooling bills. Of course, you could just not heat your house in the winter or cool it in the summer, but unless you live in a highly stable climate—say, Hawaii—that's probably not possible. A simple way to cut your heating and cooling costs is to turn your thermostat down one degree in winter and up one degree in summer. One degree—which you probably won't even notice—can save you up to a hundred dollars a year on your heating and cooling bills.

A simple way to do this is to use a programmable thermostat. These thermostats automatically turn your temperatures up and down at preset times. So if you are always in bed by 11:00 in the winter, program the thermostat to turn down the heat at 11:15, saving you money all night. It then turns the temperature back up at 6:30 in the morning, so you wake up to a toasty house. It turns the temperature down again while you're away at work and turns it up just before you get home. These thermostats are easy to program—look for one that offers daytime and nighttime settings, plus separate settings for the weekend, when you're likely to be home more and sleep in later. Because programmable thermostats actually turn the temperature down, they pay for themselves in a couple of months.

■ BUDGETING TIP

You can purchase a programmable thermostat at your local home improvement store. Be sure to get one that has both weekday and weekend settings, especially if you tend to wake up later in the morning on Saturdays and Sundays.

Get Your Books and DVDs from the Library

From books to CDs, DVDs, and audio books, your library has a wide range of free opportunities to entertain you and your family. And library cards are also free. But whatever you do, don't return your books and DVDs late! The point here is to save money, not spend it. Although fines on books are often just twenty-five cents per day, that's *per book*, so if you have more than one, you'll pay more. And fines on DVDs and CDs can run \$1–\$2 per day, each. If you're not careful, you can end up owing the library \$23—wait, that's my story, not yours!

Getting Rid of Cable/Satellite and/or Your Landline Phone

Although you may think that cable or satellite TV is part of life's necessities, these are really just extra services that you should subscribe to only if you have plenty of extra money each month—after you pay all of your other financial obligations. It is possible to live without them, and you'll read a whole lot more if you get rid of your TV altogether.

If you're using your cell phone most of the time anyway, consider getting rid of your landline, too.

Because you're probably cutting way back on your expenses, don't overlook these simple ways to save a lot of money. Prices for these services vary greatly from one area to another, but here's an example:

- Cable: \$60 per month \times 12 months = \$720 per year
- Landline: \$65 per month \times 12 months = \$780 per year
- Total Annual Savings: \$1,500 per year

Consider this: If you're currently trying to pay off \$2,500 in credit card debt and make no other changes to your income or expenses except to get rid of your cable service and landline, you'll be debt-free in less than two years. And you'll save even more if you are paying for premium movie channels or if your landline has several premium features or doesn't include free long distance.

Okay, so perhaps you accept the idea that these services do cost money and that you'd be in better financial shape if you got rid of them. Your resistance comes from not knowing how you could possibly live

without them. Here are some alternatives.

Alternatives to Cable and Satellite

Instead of subscribing to cable or satellite TV, which offer you dozens or even hundreds of channels to choose from, record every cable, network, and public television program you think you'd enjoy. Build up a collection of favorites to rewatch anytime the urge strikes. Don't forget your public library, either: Most loan DVDs of movies, documentaries, and miniseries free of charge, and some even loan popular series, too.

If you get such terrible reception in your area that you can't even watch TV without cable or satellite, you have two low-cost choices. One is to sign up for just the basic cable coverage, which gives you network stations, public television, and perhaps a few other stations. The other is to stop watching TV broadcasts and either only watch DVDs or stop watching TV altogether. Keep in mind that many TV shows are now available on DVD approximately four or five months after the last season episode airs.

Another alternative is Hulu (www.hulu.com), a service that streams movies and television shows to your computer. Through certain kinds of devices, it's also possible to stream these to your television set. The basic service is free, but there's a subscription service that offers a wider range of entertainment.

One final alternative is to subscribe to Netflix (www.netflix.com) or a similar DVD rental program, through which you receive between one and three DVD rentals at a time (movies, documentaries, and TV shows), sent to your home. Returns are free, and as soon as you return a DVD, another is sent to you right away, based on a list you create of hundreds or thousands of DVDs you want to rent, in order of priority. Like Hulu, you can also stream movies and TV shows either to your computer or your television set. Plans run from about \$6 per month to \$20 per month.

Alternatives to a Landline Phone

The obvious alternative to a landline is a cell phone. However, if getting rid of your landline will increase your need for cell minutes (and you will pay a higher fee for that), double check your math. Find out

what other cell companies are offering their customers: free incoming calls; free nights and weekends; nighttime rates starting earlier than 9:00 P.M.; free calls to customers on the same network; free text messaging; and so on. When your contract is up, if you can switch to another cell company and save money by not having a landline, go for it!

Avoiding Extended Warranties

No matter what major purchase you make—car, furnace, computer, or dishwasher—you’ll probably be offered an extended warranty by the company selling you the product. For “just” \$79, you can add an extra year to the existing warranty. Sometimes you can even add three or four years of protection. These extended warranties can be a good investment in some cases, but they’re a bad idea at other times.

When Not to Buy an Extended Warranty

If any of the following apply, steer clear of an extended warranty:

- You intend to own the product for only as long as the original warranty is in effect.
- Within a few years, the product will be out of date, and you’ll want or need to get a better, more powerful model.
- The purchase price is low enough that you wouldn’t be strapped if you had to buy another in a few years.
- Repairing this product is simple and inexpensive.
- The cost of this product is likely to decrease over the next few years.
- The extended warranty costs more than 20 percent of the purchase price.

When to Buy an Extended Warranty

Do get an extended warranty if any of the following is true for you:

- This piece of equipment is critical to your livelihood.
- You know you can’t afford to replace the product if it breaks.
- The warranty is a very good deal.

You can set up your own “extended warranty” savings account. If the

product you're buying costs \$120 and comes with a one-year warranty, put \$10 per month into your savings account. When the year is up, you'll have enough money in savings to cover the purchase of a new product, should the old one break. If the cost of the product tends to go up with time, as is the case with a car, put a little more than the existing cost into your savings account.

Buy Reliable, High-Quality Products

This idea may seem to go against most money-saving advice, but the truth is that high-quality products tend to last longer. If you buy a well-researched, reliable car instead of an inexpensive economy car, you'll pay substantially more. But if the economy car fizzles in three years and the Volvo keeps running for fifteen years after that, you'll probably save money in the long run.

Keep the following tips in mind, however, when shopping for quality:

- **If buying the quality item will wreck your budget** either save up and come back when you can afford it or make do with the less expensive item.
- **Don't automatically assume that higher price equals higher quality.** Sometimes higher prices are simply the result of savvy businesspeople thinking that consumers will associate their products with quality if they charge a lot.
- **If you aren't sure how to recognize reliability and quality,** check out *Consumer Reports*, your best source for honest, detailed testing results for tens of thousands of products. Go to their website at www.consumerreports.org. If *Consumer Reports* thinks a product has problems with quality, keep shopping. Because they don't accept advertising dollars, their testing results are unbiased. Most libraries have subscriptions to this publication, so if you're willing to do a bit of research, you can get the information for free. Note also that many companies include space on their websites for consumer reviews of products. Don't be afraid to read as many of these as possible before making a purchase.
- **Don't worry about buying a quality product** if you're not planning to keep it very long. If you're on vacation and forget your

swimsuit, don't spend a lot for another one—just buy something that will see you through.

Don't Go Trendy

Before you buy anything, ask yourself whether you're buying it because it's the best-quality item you can get for the price or because it's a hip, happening item that makes you feel good for the moment. Women's shoes and purses come to mind as short-term, trendy items that tend to be out of style in a year or two.

Many budgets are blown on novelty items, and what's so frustrating about buying them is that a couple of weeks or months later, you can't figure out what you saw in the item in the first place! Before you buy anything, apply the one-year test: Is this an item you'll want a year from now? If not, pass it up.

Buy Secondhand

Secondhand doesn't have to mean "inferior." Although you should exercise some caution when purchasing secondhand items, you can often find bargains. There's no reason to spend \$25,000 on a new car if you can get a good secondhand one with relatively low mileage for a quarter of the price. Amazon will let you purchase secondhand books and will even evaluate their condition for you. You can find secondhand clothing in thrift stores. And eBay can be a treasure trove of bargains, provided that you know what you're looking for and what matters to you about it.

Becoming a Late Adopter

You don't have to be the first kid on your block to get everything. Personal electronics, especially, tend to have a high initial price, and then settle into a lower price for late adopters. For example, iPods of all shapes and sizes are now available at Sam's Club or Costco for less than you'd pay elsewhere, but it takes a while for the latest models to reach the discount stores. Give it a few months, and then make your purchase—if you budgeted for the item!

Shopping Tag Sales, Resale Shops, and Online Auctions

Whether you're furnishing a nursery or building a wardrobe, tag sales (also called garage sales or yard sales) and resale shops—including those from Goodwill Industries and The Salvation Army—can save you a bundle.

Does this go against the advice in the preceding section to buy high-quality items? Not necessarily. Just because an item is being sold at a tag sale or resale shop doesn't mean it isn't a high-quality item. The mere fact that the item has lasted long enough to be worn by someone until it no longer fit, went out of fashion, or the person became bored with it points to the fact that this is a long-lasting product. Cheaply made products don't usually end up at tag sales and resale shops—instead, they get thrown out.

Some low-quality items do appear, however, so you need to know a couple of tricks for shopping at tag sales and resale shops. These techniques are discussed in the following sections.

Preparing a Shopping List Ahead of Time

If you just go to browse, you're likely to end up buying something that you don't need; even the deepest discount isn't a bargain if you don't need the item. Before you leave home, determine your needs and put them down on paper—and then don't buy anything that's not on your list, no matter how wonderful or how cheap it is.

Purchasing High-Quality, Undamaged Products

If you're interested in an item, pick it up and carry it with you. If you're not sure you want it and don't pick it up, it's liable to be gone when you go back to look for it, especially at a tag sale. At large resale shops like Goodwill Industries and The Salvation Army, you may never again find that blue shirt among the hundreds of blue shirts they stock.

After you've looked at everything you're interested in, turn to the items you've been carrying. Look closely at any product before buying it. Examine it for damage of any sort; turn it over and inside out to see whether it's cheaply made or is something that will last a while. Keep in mind that even buying a \$2 chair or a \$1 pair of pants isn't a good deal if it breaks or rips the first time you use it.

Consider Haggling—or Not

A lot of people haggle at garage sales. Most people holding the sales expect it, but the choice is up to you. You may save a few bucks, but the person having the garage sale is also trying to make some money, so if the marked price seems acceptable to you, pay it.

Winning at Auctions

If there's an item you've been looking for but can't quite afford, get yourself over to an online auction site (such as eBay, at www.ebay.com) to see whether anyone is offering it at less-than-retail value. You can search for items by keywords (better than browsing, which is too tempting), and you may be given two options: an option to submit a bid, and an option to buy it immediately at a set price. If that buy-it-now price is lower than what you'd pay elsewhere, be sure to check what the shipping and handling charges will be.

If you decide to bid on an item, be sure to utilize the automatic bidding function that will keep electronically raising your bid until you reach your highest price. This will keep you from having to be notified each time someone outbids you; it also forces you to set your highest price well in advance, so that you don't get caught up in a bidding euphoria and blow your budget. If you're afraid you'll be tempted to bid higher than the limit you originally set, be sure to be away from e-mail in the final minutes before the auction expires.

Reducing Gift Expenditures

Contrary to popular belief, you don't have to purchase gifts for your friends, family, and coworkers on every birthday, anniversary, or Hallmark holiday. You can, for example, save money on holiday gifts by drawing names among your friends, family, and/or coworkers. For any occasion, you can give a small donation to a favorite charity in the name of the gift recipient and send a card explaining the gift. Consider making gifts as well: cookies, breads, soups, and so on. Also, anyone—from a close friend, to a casual acquaintance, to a family member you don't see often—will appreciate a simple, handwritten note from you.

One way to save on gifts is not to give them at all! Let friends, family,

and coworkers know that while you're getting your finances under control, you won't be giving—and don't expect to get—presents for the next few years. Send a note to this effect in late September or early October to give people time to adjust!

Avoiding Dry-Cleaning

Unless the product you're cleaning absolutely, positively has to be dry-cleaned (check the label), don't use this expensive service. Many articles of clothing—even silk, wool, and linen—can be hand washed or washed using the delicate cycle of your washer, using an extra-mild detergent.

■ BUDGETING TIP

If you do need to dry-clean a product, be sure to check your Sunday paper or local coupon book for reduced rates. You may be able to get from 10 to 30 percent off.

Opportunities for saving money around the household constantly turn up. Keep a list on the refrigerator and add to it as you think of other ways to cut down on household expenses.

Chapter 8

Saving on Transportation

With the price of gasoline fluctuating during the past several years, many people have found that transportation has become a more and more significant element in their personal budgets. Long gone are the days of cheap oil when we could practically fill our tanks with the spare change rattling around in our pockets. Now, as you draw up and re-evaluate your budget and look for savings, transportation is a useful place to go.

How Many Cars Do You Need?

Many middle-class American families developed the idea (mainly in the 1990s) that for every person in the household of driving age, there should be one car. This led many families to own three or even four vehicles. As of 2009, more than a third of U.S. households owned two cars, and almost 20 percent owned three or more. That's a lot of cars—and a lot of expense.

If you and your family own two or more cars, begin by asking yourself, how many do you really need? Sure it might be a bit inconvenient for you to have to drive your spouse to appointments or to discover that one of the kids has the car for a date just when you need it to go to the store. But with some cooperation and effort, it should be possible to work out a single-car schedule that meets everyone's needs and saves you money in gas, insurance, and maintenance.

Then there's the question of whether you actually need a car at all. After all, cars can cost a lot of money: Payments or leases usually run several hundred dollars a month; maintenance and repairs are expensive; over-the-top gasoline prices can squeeze your budget; and registration and insurance can set you back a thousand dollars or more each year.

Looking Into Public Transportation

If you live in an area where you can walk or bike to work and the grocery store, or if you have a reliable mass-transit system in your area, consider getting rid of your car.

To most people this is a revolutionary—if not repulsive—idea. Having a car is like having a name: Everybody has one! Well, actually, they don't. Plenty of people who live in large cities don't own cars, and they love it. And more and more environmentalists are touting the benefits of walking or biking or riding public transportation to work, so you're not completely alone there, either.

■ BUDGETING TIP

Many people wonder how you'll get home for the holidays or take vacations if you don't have a car. The simplest solution is to rent a car when you need one. You may pay a lot for the rental five or six times a year, but that cost won't come close to the amount you now pay in car payments, insurance, maintenance, and so on.

Even if you're not a city dweller or staunch friend of the earth, getting rid of your car can make sense. There's an immediate financial impact. If you're making monthly car payments, those will stop right away. And if your car is paid off, you'll get some cash that will help you pay your other bills.

Carpooling

Many cities strongly encourage carpooling through the construction of high-occupancy vehicle (HOV) lanes. These lanes are open only to vehicles carrying two or more people and often speed along quickly, bypassing single-driver vehicles sitting, sweating, in heavy traffic.

Carpooling is most effective when you can do it with people who travel regularly to the same place—mostly those with whom you work. You can send around an e-mail or stick a sign up on the bulletin board near the water cooler. Find out who from your workplace lives near you and would be interested in saving some money on transportation. Then decide upon a fair amount everyone will kick in for gas.

Of course, you've got to agree that you'll all be ready to go at the

same time and that you'll all leave work together. But with a little effort, carpooling can save you quite a bit of money in transportation costs. Some employers encourage carpooling by their employees, offering vouchers and other incentives for those who carpool.

Going the Bicycle or Vespa Route

Even if public transportation in your area isn't up to par, you may still be able to live without a car, especially if you live in an area with a mild climate. Cycling to work every day gives you two immediate benefits: 1) It saves you money; and 2) it gets you into shape. Many companies now offer a shower at work, so if you get sweaty on the ride in, you can shower and change into work clothes when you get there. By installing a pack on your bike (called townies) that holds two sacks of groceries, you can also stop by the store on your way home.

If being completely reliant on your physical prowess to get you around town is a little much for you, consider investing in a moped, such as the popular Vespas. These economical vehicles are like low-powered motorcycles, and generally run from \$2,000 (used) to about \$3,500 (gleaming and new). If you can sell your car, buy a Vespa, and saving bundles in gas, insurance, and registration might make getting a little windblown not seem so bad.

Keeping a Paid-Off, Reliable Car

Note that if you have a reliable car that's paid off, runs well, and costs a reasonable amount in gasoline, maintenance, and insurance, you're probably better off not selling it. A car like this is just too rare to part with.

■ BUDGETING TIP

Next time you buy a car, purchase the highest-quality model you can afford, put as much money down on it as you can, and arrange for the fewest number of payments possible. Then plan to drive the car—payment free—for as many years as you can after you pay it off.

Another situation in which selling your car isn't a good idea is if you're upside down in your loan—that means your car is worth less than

you owe on it. If you're upside down in your loan and interest rates are lower than they were when you bought the car, look into refinancing your car loan.

Deciding Between a Hummer and a MINI

If you're in the market for a car (new or used), you'll need to make an important decision: Hummer or MINI. Another way to put this is: are you going to go with a roomy interior and low mpg, or a small interior and high mpg? The MINI Cooper (and similar small or hybrid cars) offers a few advantages:

- **They cost less.** Sure, you can get a souped-up MINI (the S version, in the convertible, with all available packages and options), but even that's not going to cost you as much as a Hummer. If you finance your car, this means that your monthly payments will be lower *or* you'll be able to finance your car for fewer months.
- **They get *much* better mileage.** This has substantial financial ramifications over the next several years, especially given the recent jack in gas prices.
- **Your auto insurance may be cheaper.** This didn't used to be the case, as smaller cars were also often less safe, so insurance for smaller cars wasn't any less than for larger ones. But today's small cars often do just as well in crash tests as larger, more expensive cars, and because the smaller cars cost less to replace, insurance companies charge less in premiums.
- **You can park in all those parking-garage spaces that say "Compact cars only."**

Choosing Between Leasing and Buying

Except for a few business-related tax breaks, leasing a car will never improve your financial picture. Leasing a car amounts to borrowing it for a specified number of months or years and then, at the end of your contract, giving it back. Leasing is attractive to many people because your monthly payments are lower than when you buy and the length of a lease contract is usually fairly short, which means you can get a new car more often than if you buy. But leasing it is really just having a long-term rental car.

■ BUDGETING TIP

If you must own a car, don't lease! Instead, buy a reliable car on the fewest number of payments you can afford and plan to drive it for ten years—or more. After you've paid it off, keep making the payments to your savings account so that you can pay cash for your next car.

In order to improve your financial picture, stop thinking of a car as an extension of who you are. Ultimately, if you're miserable because you're sinking deeper and deeper into debt and don't know how you're going to pay your bills this month, who cares what you're driving? You also want to stop thinking of a car payment as a fact of life. Just imagine how much more breathing room you'd have each month if you didn't have a car payment. Well, leasing never lets you go there. You're locked in to making a payment every month, and when you're done paying, you still don't own a car. You just have to go out and get another one, and make the lease payments on it for several more years.

Shop Around for Car Insurance

Consider the following story: A Midwestern couple who lives in a small town pays nearly \$1,150 per year for insurance on their two cars. They don't drive far to work, haven't had any accidents or received any speeding tickets, and they own their own home, so they're a good risk. They think \$1,150 per year isn't too much to spend—it's on par with what their neighbors pay, and it's less than they paid when they lived in a larger city. They have an agent, but they haven't seen or spoken to her in years, and if they do have an accident, they are supposed to call a toll-free number, not the agent.

Then they see an ad for another insurance company. They call the number to get its price and the price of three competing insurance companies. (Here's where the story gets a little unbelievable.) For the exact same coverage, that company offers them insurance for \$385 per year, a savings of \$765 per year! You're thinking this is a made-up story, right? Nope—all true. This scenario happened about five years ago, and the service and coverage has been exactly the same—maybe even better because the company they went with has a twenty-four-hour customer

service hotline that's operated seven days a week. The moral of the story is this: Shop around. Insurance companies change their products and prices all the time. Once a year, do a quick Internet search of insurance prices, and if you find a substantially lower price, ask your current agent to requote your policy to see whether he or she can match what you've found.

Keep in mind that speeding, reckless driving, and driving under the influence can ruin your finances. Not only will you get socked with the soaring cost of tickets, but your insurance rates could double or triple. So drive carefully and safely. If you maintain a good driving record, you may be eligible for a Good Driver Discount at your insurance company. Ask your agent about it.

Comparison Shopping

You have nothing to lose—and potentially a lot of money to gain—by contacting Progressive Insurance at 800-PROGRESSIVE or www.progressive.com. Keep in mind that if you've received a lot of traffic tickets, have been in one or more accidents, live in an area that tends to produce a lot of accidents or car thefts, drive a car that's expensive to repair, or have a very long commute, your insurance payment may be quite a bit higher than the example given here. But because Progressive gives you the insurance rate for its major competitors, you may find a non-Progressive rate that's still better than what you're paying now. Use Worksheet 8-1 as a handy place to compare rates and coverage.

Worksheet 8-1: Insurance Comparisons

Insurance Company	Semiannual Premium	Type of Coverage
	\$	
	\$	
	\$	
	\$	
	\$	

	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	

Raising Your Deductibles

If your insurance payments are still uncomfortably high after you shop around, try raising your deductibles (the amount you pay out of pocket if you have an accident, your car is stolen, or a flood washes your car away). You can save quite a bit on your annual insurance costs by increasing your deductibles from \$250 to \$500 or from \$500 to \$1,000 (per incident). Some companies don't offer high deductibles, but if yours does, see how much of a difference raising it can make. Do be sure, though, to put the amount of your deductible in a savings account so the money is there if you need to repair your car.

Chapter 9

Watching What You Spend

If your spending is getting the best of you and creating more and more debt for your family, try freezing your spending for the next several months. Freezing your spending isn't easy, but it can stop your accelerating debt dead in its tracks.

What Freezing Really Means

Freezing means going cold turkey on your spending—you temporarily stop buying. For the short term, you cut out all but the most essential spending; your cuts will include personal appliances, home appliances, clothing, shoes, CDs, DVDs, decorative items, linens, computer accessories, and so on. You freeze your spending for a predetermined amount of time—usually six to twelve months—and just stop shopping. Of course, you can still buy groceries and the required supplies for your home, but you don't buy anything else.

Some people believe that they must spend in order to keep the American economy going. While consumer spending does impact how much money many businesses make, your six or nine months of thriftiness is not going to spin the economy into an uncontrolled recession. Besides, you'll be back someday.

Reducing Temptation During a Freeze

People who temporarily freeze their spending usually find that the best way to stay the course is to steer clear of opportunities to spend money:

- Don't read the ads that come in the Sunday paper.
- Don't stop at outlet malls when you travel.
- Dispose of all the catalogs you have in your possession.
- Call all the companies that send you catalogs and have them both remove your name from their mailing lists and stop selling your

name to other companies.

- Don't visit Internet sites that sell products.
- Don't go to the shopping-mall food court for a quick meal.
- Don't meet friends for an afternoon at the mall or any other store.
- Don't go window shopping at an appliance, music, or computer store.
- Discontinue any music or book clubs, even if you have to buy your remaining required purchases to do so.
- When grocery shopping, don't inadvertently wander into the consumer-goods section of the store.
- Send gift certificates instead of actual purchases as gifts, so that you don't have to go to a store or browse a catalog or website.

The following sections help you freeze your spending a little less painfully.

Establishing What's Really a Need

Understanding the difference between a need and a want is really the crux of sorting out your financial difficulties. In an effort to make ourselves feel better about being consumers, we continually elevate wants to the level of needs. But we actually have few needs, at least in the realm of products that you can buy:

- Shelter
- Clothing
- Food and water

Thousands of years ago, this list meant a mud, straw, or wooden hut, along with some animal skins and just enough calories to survive. Today, we have escalated these basic human needs, and they have become so intertwined with wants that we're not sure how to separate them. Yes, you need shelter, but you do not need a four-bedroom home with a formal dining room, a fireplace in the great room, a three-car garage, a kitchen with cherry cabinets, and a bonus room over the garage. That's a want.

The same is true for clothing. Humans need a way to stay warm and

dry, but they do not need ten suits or eight pairs of jeans. Those are wants. And while everyone needs food and water to survive, that food does not have to come from a five-star restaurant. You also only need enough calories to survive, not enough to add three to five pounds each year, as the average American does.

The desire to own and consume is very strong in Americans, and it enables us to justify nearly any purchase in the name of needs. Don't buy into it. Instead, use Worksheet 9-1 to list every need you have (you might want to use a pencil, though, and keep a good eraser handy.) Be very specific in your list: Don't just list "house"; instead, write a description of the house you need and the amount it will cost.

Worksheet 9-1: Needs versus Wants

Need (Description)	Cost	Consequences of Not Buying
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	

Identifying the Consequences of Not Meeting a Need After you've listed all your needs, identify what would happen to you if you didn't get each one, asking yourself the following questions:

- Would you or others around you die?
- Would you or others suffer physical pain or extreme physical discomfort?
- Would your health or the health of others suffer in the long term?
- Do you know for sure that you would lose your job without this item?

If none of these would happen, it isn't a need, it's a want, and you have no business buying it during a spending freeze. Remember this the next time your mind tries to talk your wallet into giving in.

Establishing—and Sticking to—a Shopping List for Your Needs Before you leave the house and head out to spend money, write out a shopping list of your needs (which are likely to include only groceries and toiletries). Be sure that they're needs, and don't pad the list because you're in the mood to buy. Keep in mind that you are probably feeling deprived, so you may try to satisfy your spending itch by splurging on groceries and toiletries.

Before you leave for the store, write down everything you need to get, and also scribble in an estimate of how much each item will cost. Then total the bill. If it's less than you planned to spend, stop writing out your list and immediately go to the store. If the total is more than you planned to spend, begin crossing items off your list before you go, until you get down to the budgeted amount.

■ BUDGETING TIP

Don't justify veering from the list because something is "such a good deal." Instead, remember that the best possible deal is to spend \$0, so even if an item is half price, you can't buy it unless it's on your list.

Then, buy only the items on the list. Don't add items to the list and then cross them off while you're standing in the checkout lane. Instead, stick absolutely to your list. If you see something you're sure you need but it isn't on your list, put it on next week's list when you get home. Today, you can buy only what's on your list. Be vigilant about this

process, and you'll never overspend on groceries and toiletries again.

Put Away Your Credit Cards

No, seriously, put them away for at least six months. Put them in a safe place that's hard to get to, such as a safe-deposit box at the bank (which will probably cost around \$20 per year, an amount that's worth spending if it keeps you from getting further into debt). The farther away the credit cards are from you, the better.

For six months, pay for all of your day-to-day purchases with cash and pay your bills with a check. When you're shopping for purchases that are allowed—such as groceries and toiletries—write out a list before you go, estimate how much you'll need, and take no more than \$10 over that amount. When you're not supposed to be making any purchases, limit the amount of cash you carry around to \$5 and a few quarters. That will allow you to pay for parking if you need to, but not lunch or a flat screen TV!

Tuck Away Your Debit Card

Although a debit card is technically like cash or a check, in reality it feels much more like a credit card. Because you don't hand over cash, you may feel as though you're not really paying for this purchase, much like when you use a credit card. And if those funds are earmarked for other purposes (like paying off your debt or saving for a vacation), you'll end up without enough money set aside for those items by the end of the month.

If you take \$80 in cash to the grocery store, you'll be very careful not to exceed that amount with convenience foods. But if you take a debit card, you're not likely to be nearly as careful. Put the debit card in the same place you put the credit cards—your best bet is in a safe-deposit box.

Create a Wish List

A wish list is an outlet for your hot little fingers and creative mind while you're in a spending freeze. The basic idea is that you write down

everything you'd ever like to buy. The list may range from a new TV to whitening strips for your teeth to a sailboat. Anything you're not allowed to buy during a spending freeze is fair game. Nothing on the list has to be sensible or practical or a wise financial decision.

Sometimes when you're not spending, you feel disconnected from our consumer-oriented society, and a wish list makes you feel like your old self again. When you feel the itch to spend, go online or look at a friend's catalogs and write down the item number, description, page number, and so on, of any item that looks interesting. Act as if you're really going to buy the item. But don't. Just add the item to your list and let the list sit for a while. The act of writing the item down will feel, strangely enough, very similar to how you feel when you actually buy something. It sounds completely crazy, but it works!

When you brainstorm your wish list, think "pie in the sky." You're just daydreaming right now—later, you can make your list more realistic. So write down whatever you can imagine in your future. But make sure it's *your* wish list. Don't put a sailboat on your list if you really don't like water!

Pare Down the Wish List

Just listing the items can be cathartic when you want to buy, buy, buy. But listing the items on Worksheet 9-2 can also help you cross some items off the list. When you write down an item's name and cost, also check off one of the three needs categories: "Need Today," "Need This Month," or "Would Like Someday." If none applies, don't check anything off. Tomorrow, revisit any item that you indicated you needed today. Is the need still strong? In a month, review any items that you needed this month, and also look at the items that you'd like someday. Do you still feel strongly about them? Cross off any item you no longer feel you need and check off new categories for some items.

Worksheet 9-2: Your Wish List

Now, suppose thirty days have gone by, and the list looks like Table 9-4: Table 9-4: Sample Wish List, Round Two

Item Name	Cost	Need Today?	Need This Month?	Would Like Someday?
Smoothie maker	\$30		✓	
Honda Element	\$26,000			✓
One pair of jeans	\$65		✓	
iPod	\$249			✓
Cabin in the woods	\$210,000			✓

Thirty days later, the list may look like Table 9-5: Table 9-5: Sample Wish List, Round Three

Item Name	Cost	Need Today?	Need This Month?	Would Like Someday?
Smoothie maker	\$30			✓
One pair of jeans	\$65		✓	
iPod	\$249			✓

At this point, you've narrowed your list to items you would clearly like to own and can begin to save for when your spending freeze is over. You also have a ready-made list if anyone asks you what you really want for your birthday.

PART III

Expanding and Adjusting Your Budget

Chapter 10

Paying Down Debt

As I discussed in [Chapter 5](#), one of the important parts of responsible budgeting is getting a good grip on what you owe. This can be disconcerting, especially if you've not paid attention to the amount of your debt for a while. Some families are shocked by the amount of debt they're carrying and panic when it's all written down in one place. This is understandable—but never fear. We can find a way out of this morass of debt.

If your debts are crushing you, you may need to take action to restructure them through a number of means: credit counseling; debt consolidation; or selling some of your assets.

■ BUDGETING TIP

The amount of debt you can comfortably carry depends on many things, chief among which is your income. If you can comfortably make all your debt payments and are gradually reducing the amount of debt you carry, you're in pretty good shape. On the other hand, if the amount of debt you have is either increasing or staying steady, you need to take steps to reduce it.

Understand How Debt Is Restructured

Does this sound like you? You have too much debt to handle—maybe you've charged more than you can afford on several credit cards, you have school loans plus a car and house payment, and the usual payments for utilities and food. You're having trouble making monthly payments, perhaps you are already a few months behind, and you're starting to be (or have been for some time) hassled by debt collectors. If so, debt restructuring is exactly what you need! The idea is that you change the way your debt is structured by lowering interest rates, lengthening repayment schedules, combining several payments into one smaller payment, or getting some of the debts forgiven, and at the same time,

you stop getting further into debt. You may have to give something up, but you'll probably come out way ahead in the long run.

■ BUDGETING TIP

If you've been using a check-cashing service to get cash for your paycheck (or a cash loan against your next paycheck), stop immediately! Most of these companies charge a ridiculous amount of money for their services. Instead, open a bank account (look for a totally free one), which you can open with anywhere from \$5 to \$50. *Never* take a loan from a check-cashing service, as you'll find yourself paying an exorbitant rate of interest.

There are a number of ways to restructure your current debts. You might see a credit counselor to discuss your options (this is often a good place to begin because it's usually free), consolidate most of your debts into one payment, sell some of your assets, use the equity in your house to pay off your debts, or declare bankruptcy.

Get Credit Counseling

Credit counseling is usually a free, nonprofit service that offers an alternative to bankruptcy. Each agency assigns you a counselor who reviews your debts, assets, income, and so on, to help you identify your options other than bankruptcy. Sometimes the credit counselors are bona fide financial gurus, but more often they're simply well-trained, well-meaning volunteers who offer an excellent service. All credit-counseling agencies offer their services in complete confidentiality and may offer services over the phone and Internet, as well as in face-to-face consultations.

Keep in mind, however, that not all credit-counseling agencies are nonprofit, and some are almost like scams. You can find out more in the "Consolidating Your Debt" section in this chapter.

Make Sure the Counseling Is Free

Your initial counseling session(s) should be completely free. If it isn't, get out as fast as you can! Many wonderful nonprofit credit-counseling agencies exist, so don't waste your money on an agency that charges you

for counseling. While you may have to pay a small fee to consolidate your debt, the counseling session itself—in which your finances are sorted out and advice is offered—should be free.

Get Comfortable with Your Counselor

Be sure you trust your counselor and feel confident in his or her abilities. If you don't, find out whether you can have another counselor assigned to you. Keep in mind, however, that your agency is probably a nonprofit organization with limited resources. You should have a darned good reason for wanting to be assigned a new counselor before you ask for this special treatment.

Take Advantage of Free Financial-Education Opportunities

Credit-counseling agencies often offer free short seminars or informational brochures on how to get out of debt, manage money, save for a down payment on a house, save for retirement, and so on. They do this as a service to the community, like any nonprofit agency may do.

If you're not ready to speak to a counselor but want more information, consider attending one of these seminars. There you'll meet one or more of the counselors who work for the agency, and you may become more comfortable with the idea of confiding in this perfect stranger. Credit counselors are listed on numerous sites on the Internet.

Consolidating Your Debt

The biggest challenge with debt is not the simple amount you owe (called the principal); it's the interest on that amount. The interest is what keeps you paying, often for years, until you've paid far more than you originally borrowed.

Instead of writing a separate check for the minimum amount to all of your creditors, all of that unsecured debt (debt that doesn't have a sellable item, like a house or a car, attached to it) can be turned into one payment—usually at a much lower interest rate—that you can more easily manage each month. This is what debt consolidation is all about.

Debt consolidation is not a loan, nor is it a forgiveness of your debts: You do pay off all your debts in due time. But debt consolidation often offers

a lower interest rate than you're currently being charged, and if your debts are with collection agencies who expect immediate payment, you may be able to take more time to pay those debts. The best part? The harassing phone calls and letters will stop immediately.

Usually, you sign an agreement in which you allow your credit counselor to contact your creditors, let your counselor submit a budget on your behalf, agree to make your new payment on time (or have your payments automatically withdrawn from your checking or savings account), and agree not to get into further debt. If your creditors agree (and they usually do), you are usually in a position to be free of these debts in three to six years, provided your budget allows for this. Your credit counselor will put you on a tight budget until your debt is paid off.

Using an Accredited Agency

Most, but not all, debt consolidation is performed by credit-counseling agencies. Before you sign on with any agency, check with the Council on Accreditation of Services for Families and Children, the National Foundation for Credit Counseling, and the Better Business Bureau. Information on these agencies is in Appendix A.

Remember that not all credit counselors are the same! Credit card companies have always appreciated credit-counseling services that help people figure out how to pay back their debts, even if it takes them a long time. This is because when cardholders file for the alternative—bankruptcy—the credit card companies often get no payment at all. So, to help these nonprofits, credit card companies sometimes donate a percentage of the card balance to the credit-counseling service. Some entrepreneurs, hungry for the fee that credit card companies give for credit counseling, have started for-profit businesses that advertise as credit counselors. But these companies often push the consumer to pay the credit card companies first—or worse, will work only with debts owed to creditors that pay them—which may not be in your best interest.

Examine the Fee—If Any—for Debt Consolidation

Most nonprofits charge a nominal fee for debt consolidation. Expect

this, but do not pay more than \$25 per month for this service. The money goes to a good cause—paying the agency’s considerable expenses—and because of your lower interest rates, you’ll still save a bundle of money.

Review the Terms of Your Agreement

Be sure you read the terms of your agreement carefully. You’ll usually be expected to make your monthly payment on time—with no exceptions—and you’ll also agree not to get into any more debt. This is a bit of tough love because, ultimately, you can’t break your cycle of debt if your credit-counseling agency bails you out and then you get right back into debt again. Because they’re going to all the trouble of intervening on your behalf, you have to agree to change your lifestyle. It’s a tall order, but it’s the only way most credit-counseling agencies will work.

Consolidate Your Debts on Your Own

Another way to consolidate your debts is to use one of your credit cards to pay off all your other debts. Many credit cards even provide checks or special forms that help simplify this process.

Under most circumstances, however, consolidating this way—on your own and without the guidance and support of a counselor—isn’t a good idea. Because you won’t have signed an agreement not to rack up any more debt, you may be tempted to use your now-paid-off credit cards to spend more money, making your situation worse.

In addition, even if one of your credit cards is offering a low interest rate to transfer the balances from your other cards to theirs, the rate is usually good only for a limited amount of time (like six months) and may skyrocket after that. Many credit cards also charge a transaction fee to pay off the balances of other cards. A credit counselor can usually arrange for an even lower interest rate for your debts—and it won’t expire.

Sell Some Assets

Besides debt consolidation, there is another way to raise money to pay

off your debts: Sell some of your assets. If your house, apartment, storage unit, or parent's house is stocked with items belonging to you that you no longer use and that may have some resale value, consider selling them and using the money to pay down your debts. (This is where you see the value of the list of your assets we made at the beginning of this book. It gives you a clear idea of exactly what you own that you might be able to convert into cash in order to reduce your debt.)

■ BUDGETING TIP

Don't confuse pawnshops with tag sales, where you drag out all your stuff and try to make a few bucks. Let's be clear: The people who run pawnshops are nearly always loan sharks, often charging as much as a 25 percent annual interest rate. Steer clear!

Selling Valuable Items

Items that you may be able to sell—and that may be valuable—include furniture, jewelry, an automobile or motorcycle, exercise equipment, recreational toys (pool table, bike), paintings, signed books, computer equipment, guns, memorabilia (baseball cards, signed sports balls), coin or stamp collections, and outdoor equipment (grill, riding mower).

Whatever items you plan to sell, if you expect a high price for them, make sure they're in excellent condition. If they're not nearly new, consider holding a tag sale (see the following section).

Don't sell any items that don't belong to you! That may be considered theft, landing you in hot water. Also, don't sell anything that has a loan against it unless you plan to pay off the loan that same day. Contact your lender about how to sell an item that they hold a lien against.

You can sell valuable items in a variety of ways:

- **Advertise in your local newspaper or a pay-only-if-you-sell publication.** Although an ad in your local paper can be a bit pricey, you won't have to mess with shipping the item to an out-of-town buyer. Classified ads in some papers are quite inexpensive—and

most feature a searchable Internet component. The pay-when-you-sell publications, either online or in print form, allow you to advertise for free until you sell the item, at which time you pay a percentage of the selling price—sometimes as much as 15 percent. This option is a good idea if you're not sure your item will sell.

- **Visit a reputable dealer in antiques, paintings, guns, jewelry, books, coins, or stamps.** If you think your item has some value, see a dealer who resells the type of item you wish to sell. Don't visit a pawnshop or any other shady business. Go to the best, highest-class dealer you can find and present your item for sale. If you aren't satisfied with the price, go elsewhere. That particular dealer may simply have too many of what you're trying to sell; another dealer may not.
- **Auction off the item, either online or with a service in your community.** Your items will have to be fairly valuable to others to warrant a live auction (call your local auction company to arrange an appraisal), but even inexpensive items can be auctioned via online services such as eBay (www.eBay.com).

If you choose an option that will require you to send an item to another city or state (and this is usually the case with online auction services), make sure you find out how much FedEx or UPS will charge you to send your item, insured, via one-or two-day service. Add that cost to your base price. Also, do not send your item without first receiving payment: Either send it C.O.D. or require payment from the buyer before sending the item.

■ BUDGETING TIP

Many online auction services now use a third-party escrow company that receives the money from the buyer and holds it until you send the item and it's received in good condition. The escrow company then sends you the money, charging you, the buyer, or both of you a fee in the process.

Holding a Tag Sale

If you own a lot of items, but none is of much value, consider holding

a tag sale (also called a yard sale or garage sale). Although your items will sell for much less than you paid for them, you may be able to make hundreds of dollars selling items you consider to be junk. Don't forget, however, that lugging all your items out to the garage or yard, marking them with prices, and being anchored to your sale for a day or two is time-consuming and challenging!

Be sure to mark the price on every single item and include a range of prices, from twenty-five cents for old kitchen towels to \$40 for a dresser that's in good condition. This will keep your buyers happy.

To attract customers, set out an attention-grabber—an item that's highly unusual or brightly colored—near the end of your driveway. Make your sale seem full by pulling some of your larger items out of the garage into the driveway. If you don't think you have enough stuff to attract attention, consider combining a sale with neighbors, friends, or family.

Be sure to advertise your sale in your local newspaper. For a fee (generally \$10–\$25), your sale will be advertised a few days in advance (in the paper and online), and you may even receive some signs to place near your house, at intersections, or on busier streets, showing shoppers how to find you. Your ad should include your address, day(s) of the sale, hours, a list of items, and whether you'll hold your sale in the event of rain. Don't include your phone number in the ad—you'll spend the day of the sale on the phone, distracted from helping your buyers and spotting shoplifters.

Expect early birds to arrive from sixty to ninety minutes before your posted time. If you're not ready to open, ignore them and reiterate that you'll be opening at the time listed in the paper. Most of these early shoppers are antique or resale-shop dealers who want the pick of your tag-sale litter. If you let them in early, regular folks who saw your ad and thought it'd be fun to go to a garage sale may be furious with you!

Good garage-sale operators get change (a roll of quarters plus small bills) the day before the sale, but if you do this, keep the money box in your hands *at all times*. A common scam is for one person to distract you while another steals the money box. Also, if you're not good at addition, keep a calculator nearby.

Cashing In Savings Bonds or Stocks

If you own bonds or stocks that aren't earmarked for your (or your child's) education or for your retirement and they are currently valuable, consider cashing them in to pay down your debt. Before deciding, visit your local bank or stockbroker to determine the value of these assets, as well as any penalties and other costs or commissions associated with selling them.

Using Your House to Pay Off Your Debts

Using your home's equity to get out from under crushing debt was very popular prior to 2008 and the decline in the housing market. Even though it's now done less often, it may be possible to tap your home's equity, which is the value of your home minus the mortgage owed on it (see [Chapter 3](#)).

Declaring Bankruptcy

In 2005, Congress enacted a number of changes to U.S. bankruptcy law. Even though in some cases these changes made it more difficult to file personal bankruptcy, it can still be an option for you if your debt is significant enough and if you have no other options. However, it is not a course to be undertaken lightly.

Bankruptcy generally isn't a good idea because, although it probably seems much easier than credit counseling or selling some of your belongings, it can haunt you for a good portion of your life. Think of it this way: Would you ever loan money to a friend who once borrowed it but never paid it back? Neither will lenders, including those that loan money for cars and homes and those that offer unsecured loans like credit cards and store charge cards. You may even have trouble getting the utilities for your house or apartment hooked up if you've declared bankruptcy. (This means you'll have to prepay these services until you establish a good payment record.) In addition, many stores and other companies won't accept checks from you if you've recently declared bankruptcy.

Requesting Bankruptcy Protection

Requesting Bankruptcy Protection

You can file two types of cases in bankruptcy court, and they're covered in the two following sections.

Chapter 7

In [Chapter 7](#) bankruptcy, nearly all your debts are wiped out; that is, all unsecured debts (credit card balances, hospital bills, long-distance phone bills, and so on) are never paid back. Note that unsecured debts to the government, including student loans, taxes, and court-ordered alimony payments, are not wiped out and must continue to be paid back on an agreed-upon schedule.

Secured debt (cars, mortgage on a house, major appliances) is usually sold, and the proceeds pay off the lender. You may, however, get to keep your house (if you keep paying the mortgage), your car (if you keep paying on the loan, should you have one), and some personal property (TV, and so on, as long as you don't owe any money on them). However, you generally will not get to retain an expensive house or car; those will have to be sold.

Many people believe that [Chapter 7](#) bankruptcy is a convenient way to run up a bunch of debts and then walk away, scot-free. Baloney! [Chapter 7](#) bankruptcy is a gut-wrenching heartache that can follow you for at least a decade. Ask yourself this: Why would anyone—especially a creditor who lends money for a living—want to lend you money after you walked away from a pile of unpaid debts in the past? You ate the food, wore the clothes, used the products, and then decided that you didn't want to (or couldn't afford to) pay for them after all. Who would feel compelled to trust you after that? And because you can declare [Chapter 7](#) bankruptcy once every six years, what's going to keep you from doing it again?

■ BUDGETING TIP

Filing for [Chapter 7](#) bankruptcy protection will cost about \$300 in court fees. If you hire a bankruptcy attorney, of course, it'll cost you quite a bit more than that—possibly up to \$2,000. On the other hand, given the complexity of law on this subject, hiring a lawyer is the safest way to file [Chapter 7](#).

Firms that specialize in bankruptcy insist that new creditors won't know about your past, but that's simply not true. A [Chapter 7](#) bankruptcy can stay on your credit report for ten years. And don't forget that potential employers regularly request credit reports before extending an offer to hire you. They figure it tells them something about the sort of person you are—and they may be right! Even the leasing company at the apartment complex you want to move into and the electric company that's setting up electrical service in your name probably won't agree to work with you if they see a bankruptcy on your credit report.

Chapter 13

Chapter 13 bankruptcy is so much like credit counseling that it should never be your first choice—credit counseling should be. Like credit counseling, you present a plan to the court (including an entire budget that shows that the planned payments are possible) to pay off 100 percent of your debts over as long as five years.

A trustee collects and disperses your payments to creditors, usually charging you an additional 10 percent in the process, an amount that's much higher than what credit counselors charge. You also have to pay about \$200 in court fees, and if you use an attorney, you'll have to pay his or her fees. Just about every sort of debt is allowed to be paid off under [Chapter 13](#) bankruptcy, even government loans. Unlike [Chapter 7](#) bankruptcy, with [Chapter 13](#), you usually hold on to your assets.

So why would people choose bankruptcy over credit counseling? Many simply don't know that credit counseling exists, yet chances are, you have a nonprofit credit-counseling service right in your city or area. Others believe that bankruptcy is simpler (it isn't) or costs less (it doesn't) than credit counseling. And a few people have had their credit-counseling proposals rejected by creditors, and they see bankruptcy as a last option.

According to the Federal Reserve, people filing for bankruptcy typically owe more than one and a half times their annual income in debts (not including their mortgages and cars)! This means that if a family makes \$30,000 per year, they owe more than \$45,000 in credit card and other high-interest debts.

Think of bankruptcy as your last resort; and if you have to choose, file [Chapter 13](#) protection. But always meet with a credit-counseling agency before talking to a bankruptcy lawyer. You'll not only save money, you'll preserve your reputation, too.

Chapter 11

Saving and Investing

One of the most important aspects of budgeting is that it allows you to put aside money from your daily expenses, so you're not just living hand to mouth. Going from paycheck to paycheck with no cushion in your savings account may have seemed like a good idea when you were young and your entire life was before you. But the older you get and the more you have to look at long-term expenses such as retirement, the less attractive this kind of lifestyle seems.

Saving, whether for retirement, college, or simply for emergencies, is another one of those goals that you need to establish and prioritize at the very beginning of the budgetary process. We'll discuss this more in [Chapters 17](#) and [18](#). For now, ask yourself how important establishing a savings fund is to you. How does it fit in with your other goals? Why are you saving money? What's your plan for it?

What's an IRA Anyway?

Fortunately, the government has made certain kinds of savings easier by giving you tax breaks for engaging in them. Most of these special accounts are set up for retirement. Among the most popular and important is the individual retirement account, or IRA. An individual retirement account is a voluntary retirement savings plan. Up to certain limits, you can contribute to an IRA every year and, if it's a traditional IRA, deduct the amount of your contribution from your federal income taxes. Starting at age fifty-nine and a half, you can withdraw funds from your IRA each month. At that time, the money you withdraw is taxed, but because you'll probably be at a lower tax level, you'll still save tax dollars. Withdrawing the money before age fifty-nine and a half results in substantial penalties. In addition, you must begin receiving disbursements from your traditional IRA at age seventy and a half.

As long as you're making money doing something, you can deposit up to \$5,000 into a traditional IRA. If you're over fifty, you can deposit an

additional \$1,000. These numbers will likely gradually go up, as they have for the last decade. However, if your income exceeds a certain level, you may not be eligible to take the tax deduction. Visit the IRS website at www.irs.gov to determine those income levels for this year. You may also be limited in traditional IRA contributions if your company sponsors a retirement plan for you, even if you don't participate.

■ BUDGETING TIP

You can make an IRA contribution as late as the day your taxes are due (usually April 15) and still credit your IRA contribution to the previous year's taxes.

Roth IRA

A Roth IRA is a variation of a traditional IRA, but the tax benefits of the plans are in total opposition. With a Roth IRA, instead of getting a tax deduction for your contribution now and paying tax on the amount distributed to you in retirement, you get no tax deduction now, but you pay no tax on the money distributed to you later. Like a traditional IRA, you can contribute \$5,000 per year.

Also like a traditional IRA, however, you can't contribute—or the amount of the contribution amount is reduced—if your AGI (adjusted gross income) exceeds certain limits (see www.irs.gov for current income and contribution limits).

A Roth IRA does have a couple of benefits over traditional IRAs, though. One is that you can continue to contribute as long as you'd like and do not have to begin taking distributions at age seventy and a half. The other is that you can contribute to a Roth IRA even if your company sponsors a retirement plan.

SEP-IRA

A Simplified Employee Pension (SEP) IRA works like a traditional IRA, but it's set up by an employer for its employees (including by you, if you're self-employed). As long as the employer does not offer another retirement plan, the employer can contribute up to 20 percent of your

income (up to \$45,000) into the SEP-IRA every year. You can take the account with you when leaving the company to take another job. All of the money contributed comes from your income, but it's not taxed until you receive it during your retirement years.

■ BUDGETING TIP

Looking for a safe way to invest for your retirement? Look into Treasury Inflation-Protected Securities (TIPS), which, as of mid-2012, pay around 2.5 percent; plus, they're adjusted for inflation. Although you'll pay tax on the interest if you use them for anything other than retirement, you can buy them for your tax-deferred retirement account(s).

Letting Your Employer Help You

For most of the twentieth century, companies paid the retirement incomes of their long-term employees, so the employees didn't have to worry about saving for their retirement years. How times have changed in the twenty-first century! Most employees do not stay with companies long enough to be considered long term, and most companies do not provide any of their own money to fund retirement accounts. There are a few exceptions, however, discussed in the following sections.

Pension Plan

Your company places money into a retirement account (the amount contributed on your behalf depends on your income, age, and years of service), manages that account, and pays benefits to you from that account when you retire. When you receive distributions from a pension plan (either monthly, annually, or in a lump-sum payment), you're taxed on the income. Pension plans are becoming less common, although they still exist, particularly for those people holding government jobs (although even in those cases, pension plans are far less generous than previously).

Profit Sharing/401(k)/403(b)/457

In this type of plan, your company contributes money, tax free, into an individual account on your behalf based on how much you ask to have

contributed (the IRS sets limits, but they're too detailed to include here). Some companies match all or part of these contributions, making your potential annual contribution quite high. Distributions at retirement are taxed. For-profit companies offer 401(k) plans; 403(b) plans are used at religious, educational, and charitable organizations; 457 plans are used for employees of state and local governments.

SIMPLE-IRA

A Savings Incentive Match Plan for Employees (SIMPLE) IRA is similar to a traditional IRA and a SEP-IRA. A SIMPLE-IRA is set up by a business with fewer than 100 employees (including yours, if you own a small business). Contribution limits to a SIMPLE-IRA are currently over \$10,000 and increase each year.

The employer then matches a portion of your contribution—usually a dollar-for-dollar match—for up to 3 percent of your income.

Take advantage of any employer-matching plans, because the employer is offering you free money for retirement. If you can contribute to only one type of retirement account and you have an employer-matching plan at your company, participate in it up to its limits!

Employee Stock Ownership Plan

An Employee Stock Ownership Plan (ESOP) is a retirement account made up mostly of company stock paid for by your employer and, potentially, added to with purchases of company stock that you make. ESOPs can be difficult to take with you if you leave the company, but they can often be transferred into company stock or cash.

Keep in mind that your ESOP is worth only what your company's stock is worth. If you have any doubts about whether your company will still be in business when you retire, don't count on the money from your ESOP as retirement income.

■ BUDGETING TIP

To find out what your company has to offer, visit the human resources department and ask questions about what's available. You won't have to commit to a plan at that point, but you can use the information to see how much you can save for your retirement with a contribution that's

Use the information to see how much you can save for your retirement with a contribution that's automatically withdrawn from your paycheck.

Other Plans

Several dozen other types of employer-contribution plans exist, but many are no longer in existence. For a complete list, visit the Motley Fool's Retirement Plan Primer at www.fool.com/Retirement/RetirementPlanPrimer.htm. You can also visit your local library and ask for help in researching employer-contribution plans.

Investing on Your Own

In addition to putting away retirement savings in tax-deferred or company-sponsored plans, you can always save and invest on your own. Remember, however, that you should first take advantage of any free money your employer might be offering in retirement-matching plans, then take advantage of tax-deferred retirement plans, and only as a third choice begin a simple savings account or a more complex investment portfolio for your retirement income.

Saving money in a savings account is quite simple and doesn't require any particular knowledge or skill. You may want to periodically shift your savings to a long-term CD or to savings bonds to earn a higher interest rate.

■ BUDGETING TIP

Once you begin investing, you'll probably want to have an accountant figure your taxes every year. You may owe tax on your earnings, and figuring out exactly how much is a pretty complicated procedure.

Investing, which is significantly more complicated, requires some knowledge of the markets, company documents, and trading rules. If you're interested in learning more about investing, do it. If you're conservative in your investments and take time to read all the available financial documents on companies in which you're investing, the risk is far smaller than most people believe. If you have no interest in doing

this, hire a stockbroker or financial consultant to invest for you. For a basic primer on investing strategy, see *The 25 Habits of Highly Successful Investors* by Peter Sander (Adams Media, 2012) and the latest edition of *The 100 Best Stocks to Buy* by Peter Sander and Scott Bobo (Adams Media).

Chapter 12

Merging Your Finances

Ah, love! Ain't it grand? Two people meet, fall in love, and decide to spend the rest of their lives together. It's all about wedding planning, registering, finding a place to cohabitate, and deciding whose sofa is in better shape. All good, right? Well, sure. But keep in mind that the number one stressor on a relationship is money—either not having enough of it or having widely different ideas about how to make, spend, and save it. So before meeting with your wedding planner, meet with your financial planner. And use the tips and ideas in this chapter to help you both get on the same page.

Don't Let Love Overshadow Finances

Suppose you two are practically perfect for each other: You like the same music; worship at the same church; have similar ideas about how to raise children; and so on. But financially, suppose you're on opposite sides of the map: You believe in working with a budget and saving for a rainy day; he/she figures, if you have money, you spend it, and if you don't, you spend it. You've amassed \$18,000 in savings toward the down payment on a house; he/she is \$28,000 in debt. You pay cash for your cars and keep them for 200,000 miles; he/she leases a new car every two years. Or vice versa; maybe you're the spender and your partner is the saver.

Regardless, no matter how similar the playlists on your iPods are, you two are not currently a match made in heaven. With your financial goals and ways of living so out of whack, chances are, you're both going to be unhappy.

The online payment company PayPal surveyed over 3,000 people and found that, for couples between ages eighteen and forty, 82 percent said money was the number-one issue in their relationship.

Before You Move In. Discuss Finances

BEFORE YOU MOVE IN, DISCUSS FINANCES

Sometimes, people spend or save the way they do out of habit. Or, they are not aware that there's any other way to live. Or they've never thought about developing financial goals and working toward them in their everyday financial interactions. If your potential partner is a spender and you're a saver (or vice versa), you don't have to write the relationship off completely.

If either of you is willing to live like the other, there's hope, but if you're both entrenched in your financial ways of living, you're likely going to struggle. To find out, have a serious discussion about finances before formalizing your relationship. In that conversation (or series of conversations), talk about where you see yourself financially in five years, ten years, twenty years, and beyond. Also, make sure you discuss potential financial hot spots by asking the questions listed in Worksheet 12-1.

Worksheet 12-1: Financial Hot spots for Couples

How much income do you make?
How many assets do you have, and how much debt do you have?
As a general rule, how much money are you comfortable keeping in savings?
What percentage of your income do you like to contribute or otherwise give away?
How would you respond if a friend or family member asks to borrow money?
Would you rather rent or buy a place to live? If rent, for how long?
What's the highest monthly mortgage payment you'd be comfortable with? For fifteen years or thirty years?
Do you eventually see yourself being mortgage-free? If so, in how

many years?

How do you feel about having credit card or store charge card debt?

Do you pay off your credit cards or store charge cards every month?

Do you prefer to lease a new car, buy a car on credit, or save to pay cash for a car?

How important is it to you to be able to eat out one or more nights per week, get takeout regularly, and stop by the coffee shop every morning?

How often do you shop for new clothes or buy new toys (electronics, golf clubs, etc.)? Do you pay cash for these items?

Do you ever want to join a country club or athletic club?

What sort of vacations do you see yourself taking? What sort of places would you like to go? At what category of hotel would you stay?

Have you already started saving for retirement? If not, when might you do that? At what age do you plan to retire?

Regarding children, how do you feel about giving an allowance versus giving them money when they want/need it?

Will you buy your children cars when they turn sixteen? Will you pay for their gas, insurance, and maintenance?

Will you pay for your children's college costs? If so, all or a portion?

Will you pay for a child's wedding? If so, all or a portion?

How do you anticipate caring for your aging parents, if they need assistance? Will we pay for their care? Will they live with us?

Keep in mind that the single biggest budgeting issue faced by couples is not filling out new budgetary forms and determining their new joint income and expenditures. It's adjusting their dreams and long-term plans to make sure they mesh with one another. If your long-term goal is to open a bar in Aruba, and your life partner wants to retire to a little village in upstate Vermont, you've got some serious talking to do. Once your life goals are aligned, many of the budgetary issues that flow from those goals will become clear.

Deciding Where to Live

Ideally, couples newly married or moving in together will rent for a year rather than buy a house, especially if either is new to the area. Renting for your first year gives you time to determine how much room the two of you need to live comfortably, in which area of town you both wish to live, and how much home you can afford. Renting also gives you time to look at houses together, which will likely spark discussions about what each is looking for in a home. Through these discussions, you will eventually find a home that fits both of you.

Many couples—especially older couples and those marrying for the second time—will move into the house of one or the other person. If nothing else makes financial sense, then make this move. But if selling one or both existing houses and buying a new one together also makes financial sense, take that route instead. Why? Because the partner who moves into the other's house will likely always feel like a guest there, and no one should feel like a guest in his or her own home. If you find that you must take this step, make the house as much of a blank slate as possible: Move all the furniture out of the house; repaint and redecorate as much as your budget can afford; and then merge the possessions of both parties and, perhaps, purchase a few key furnishings together.

Choosing Between Single and Joint Accounts

One of the first decisions you'll have to make when you and your significant other move in together is how to merge your finances. You have two main options:

1. Open a joint checking account, deposit both your paychecks into that account, and jointly pay all bills out of that account. This is the option that most married couples choose, because it simplifies the question of “How much money do we have?” Most people who have a joint checking account also have joint everything else: credit cards; retirement accounts; savings accounts; and so on. If you choose this option, however, be sure to designate one person as the official bill payer in the family. Also, you need to find a way to keep track of the amounts that are debited from the account (through debit cards, checks, and Internet payments) each day or week.
2. Keep separate accounts, as they were before you moved in together. Each person’s paycheck goes into his or her account, and the bills are divided up, with each paying a share of the bills. This is the option most unmarried couples choose. It offers the most autonomy and independence, but it can create resentment, especially if one person makes significantly more than the other, and thus has substantially more spending money. To combat this problem, some couples divide the bills according to income, so that if one person makes 40 percent more than the other, he or she also pays 40 percent more of the bills than the other, thus leaving both with similar cash for spending.

Prenuptial agreements may seem like the least romantic idea you’ve ever heard, but a recent Harvard University study found that prenups usually aren’t primarily about money. Instead, they detail how the couple plans to raise children, under what grounds the couple can divorce, and so on. Prenups usually mean that the couple has spent significant time talking about how they see the marriage working, and that can only be good.

Finding Compromise in Different Approaches to Finances

If you find (perhaps after completing Worksheet 12-1) that you and your

significant other have significantly different approaches to finances, you don't necessarily have to call it quits. But before you take the next step, have a long, hard, honest talk about finances.

■ BUDGETING TIP

Given how important money is in relationships, if you can't agree on that, it really doesn't matter how good everything else is. Take any substantial money disagreements very seriously before getting married!

Discuss ways in which you can compromise. For example, suppose a couple has radically different views about money. They both make good income, but she has spent most of college in debt, and he had his college paid for. She's adamant about getting out of debt, and then saving for retirement, buying a house, and planning for children. She doesn't enjoy golf, and he's an avid golfer who can either play on the public course for about \$3,000 per year or join a country club for \$10,000 per year. He's a spender who doesn't think much about money, so he really wants the country-club option; she thinks the country club is a waste of money that moves them away from more important financial goals.

At this point, they appear to have three options: 1) Go with the public course; 2) join the country club; or 3) break up. But perhaps there's a compromise to be had. For every dollar above the public-course fee that he spends (so, \$7,000 per year), the couple can also put a dollar toward her student loan until it's paid off, and then toward savings and a retirement account after the loan is paid off. That way, he gets to join the country club, but they also meet her financial goals. If they can't afford to do both, at least her financial goals are put on the same footing as his golfing goals.

Creating a Two-Person Budget

In order to create a two-person budget, you and your significant other should sit down together and go through [Chapters 1](#) through [6](#). Come up with financial goals (both individual ones and joint ones), track your individual spending, and establish a budget that works for both of you.

Use Worksheet 12-2 for your final data, but be sure to go through the steps in Chapters 1 through 6 so that the budget you establish represents your shared vision of your financial future.

Worksheet 12-2: Two-Person Budget

Monthly Expense	Amount
Groceries and household items	\$
Day care	\$
Contributions	\$
Savings	\$
Rent on furniture or appliances	\$
Entertainment/baby-sitting	\$
Eating out	\$
Rent or mortgage	\$
Car payment or lease	\$
Electric bill (average)	\$
Gas bill (average)	\$
Water bill	\$
Sewer bill	\$
Trash pickup bill	\$
Cable/DSL/satellite bill	\$
Telephone bill	\$

Cell phone bill	\$
Bank charges	\$
Haircuts/manicures/pedicures	\$
Home equity loan	\$
Other loan	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Child support or alimony	\$
Car maintenance	\$
House maintenance	\$
Auto insurance	\$
Property taxes	\$
Gifts	\$
Events to attend	\$
Clothing and shoes	\$

Home insurance	\$
Vehicle registration	\$
Vacation	\$
Club membership	\$
Other:	\$
Other:	\$
TOTAL:	\$

Chapter 13

Baby on the Way

For many couples—especially younger ones—moving in together and getting married is just the beginning. They're ready to start a family; this step of bringing a baby into the world is often the start of a wonderful adventure with many ups and downs along the way. But wherever it takes you, you'll find that to prepare for it you've got to have another series of budget discussions with your partner.

When you find out that you're pregnant, you'll be amazed, thrilled, stressed, and overwhelmed, maybe even in that order. A baby is a remarkable addition to a household, and that thought will sustain you for some time. But before long, you may begin to sweat when you think about the medical costs of having a baby, and then the diapers, clothing, bigger house, furniture for the nursery, toys, books, stroller, car seat, and then, eventually, a car and college tuition!

Before you panic, set aside time to plan your finances around your new baby. If possible, do your planning early in the pregnancy so that you're aware of all the potential expenses as you go along and aren't stressed for nine long months.

BUDGETING TIP

Any time you begin to panic, think of your greatest fear in the situation: You'll spend so much money on your baby that you'll be homeless; or you'll have to work so much to pay the bills that you'll make a terrible parent. Whatever the fear is, think it through, and then, if possible, get a good laugh from it. You're too far along the budgeting track to let something like that happen!

Sit down with this chapter and work your way through it step by step. If you don't know the price for a particular product or service, find out, and then meet back here to complete this chapter.

Estimating Expenses for Your New Baby

Your first step in calmly revising your budget to include your new little roommate is to estimate your new baby expenses. You do this by interviewing people, reading, visiting stores, calling about services, and so on.

Interview Other New Parents

Talk to everyone you know who has had a baby recently, and begin to find out what expenses they incurred. Don't be surprised if the talk is a bit overwhelming—some people may tell you that they've practically gone broke because of a new baby—and try not to let it affect you. Their finances are not your finances, and you may be able to make very different decisions than they made. Brace yourself, though, for lots of advice on what to buy and what not to buy, what to do and what not to do. Even if it's annoying, you can gather great information about what expenses were unexpected, what were the good investments, and so on. Keep good notes, thank them for their time, use their information to estimate your expenses, and then proceed to do whatever is best for your finances.

Read One Good Baby Book

Baby books can answer all the questions you have, even ones you didn't know to ask! For example, how long do babies breastfeed? After they start eating baby food, how much will they eat? How many diapers do babies go through in a day? What are the essential supplies that babies need, and which are extras that you may be able to do without? How often do they have to visit the doctor? What symptoms warn you that an extra doctor visit is required? Which vaccines do babies need to get? How fast do babies grow? Do they wear shoes? When do they need hearing and eye exams? What about dental visits? Do babies need their own books? How many and which books do they need?

■ BUDGETING TIP

Mine your local library for baby books before visiting a bookstore. While you may eventually decide to buy a baby book as a reference to have around the house, reading those at the library first can keep you from spending money on duds.

If you haven't been around children very much, a good book on babies can answer even your most basic questions. And if you're a bit of a baby expert, most baby books serve as good reminders of the information you already know; plus they usually have little nuggets of great information that you've never heard before.

Visit Stores, Including Online Shops

One of the easiest ways to begin thinking of what expenses a baby may create is to visit a store—brick-and-mortar or online—and see what products are offered for babies. Keep in mind that you don't have to buy the vast majority of this stuff, just like adults don't need half of the products that are marketed for them, but stores are a good place to start. Write down everything you see, from baby diapers and bottles to bassinets and cribs.

If possible, ask one of your friends to throw a baby shower in your honor, which will allow you to receive some of the items you need as presents. It's likely you won't have to buy every item on your list! People are happy to chip in with sleepers, accessories for the crib, extra bottles, and other items that can greatly reduce your initial expenses.

If the store you're visiting offers a baby-shower registry service, see if you can get the list they ask prospective parents to fill out. You don't necessarily have to register (some people think it's a great tool; others feel it's gratuitous), but the list itself will help you identify what items other people buy for their babies.

Don't forget to visit grocery stores, too, to determine the cost of baby food. Breastfeeding is both the healthiest and most economical way to feed your child for the first year or so, but after that, you'll need to start buying a variety of baby foods. Determine whether you want to buy organic or nonorganic baby food, and then take notes about how much they cost. You can also make your own baby food with only a few common kitchen tools and fresh fruits and vegetables. If you're interested, check out books on the subject from your local bookstore or library.

Take Stock of What You Already Own

You may already own quite a bit of furniture that can be used in a

baby's room. If you have an armoire; a dresser or chest of drawers; or an upholstered chair, small sofa, or rocker in any other room of your house, consider moving it into the nursery for a year or so. Even furniture that doesn't look great can be painted in bright or pastel colors to look attractive. Just be sure that the furniture is sturdy and splinter-free so that it won't end up hurting your child.

■ BUDGETING TIP

A great place to get inexpensive baby supplies is at tag sales (also called yard sales and garage sales). Look for those that advertise baby clothes, toys, furniture, and so on. You may be able to pick up Onesies (one-piece outfits that babies wear) for a quarter—several dollars less than you would pay at even the cheapest store.

Call Around to Price Services

If you're thinking of using a diaper service, day care service, or babysitter, call several in your area and compare their prices and levels of service. It's especially important to interview day care providers and babysitters to make sure their philosophy on childrearing is the same as yours.

Although diaper service is going out of fashion in favor of disposable diapers, diaper services can save you money. Instead of continuously buying and throwing-away diapers, you essentially rent them from a diaper service. They drop off clean diapers and pick up dirty ones, and when you no longer need them, you stop the service. The upside is that you don't have to pay the high cost of disposables; the downside is that some babies have reactions to the strong chemicals used to clean the dirty diapers. But some babies react to disposable diapers, too.

Call Your Health Insurance Company

If you don't have a schedule of services for your health insurance policy, call your representative to find out how much the pregnancy, natural-childbirth classes, delivery, and baby visits are going to cost (your deductible plus the co-pay). Also, find out whether your premiums will rise because of the extra person who will now be on your policy.

If you aren't yet ready for your employer to know you're pregnant, wait to call your health insurance company until you've told them. You don't want your employer to discover your news from a third party.

If you don't currently have health insurance, call your doctor and local hospital to get an estimate on how much having a baby and keeping him or her healthy is going to cost. If you don't have the cash, also find out whether they have a payment plan. And don't rule out the possibility of using a midwife for the delivery. Unless your pregnancy is high risk, using a midwife can be an effective way to reduce your costs. You can often deliver the child in your own home, saving thousands of dollars in hospital fees. Keep in mind, however, that you won't have the medical resources of the hospital on call. If something goes wrong during a home delivery, both the baby's and the mother's health can be at risk.

If You're Thinking of Moving, Look at Housing Prices

Many people believe that a new baby has to result in a new house, and that may be so if you're living in a one-bedroom home with no bathtub. But babies are very small, at least for a while, and you may be able to fit your baby into even a small house for a year or two before moving. If your house has two or more bedrooms, you may not need to move for several years, if at all. If you do decide to move, take a look at housing prices in the area first, so that you can use this information to create your baby-friendly budget. Using an online mortgage calculator (see Appendix B), determine how much your monthly mortgage payments will rise.

■ BUDGETING TIP

If you can afford it, getting a fifteen-year mortgage when your baby is born is a great way to pay for college: You'll have three years of "mortgage payments" (that actually go into your savings account) before you have to write the first tuition check.

Putting Your Figures Together in One Worksheet

After gathering all the information you can find on how much your new baby may cost you, put it together in Worksheet 13-1. List every

baby expense you can think of, along with the monthly cost. Then take a careful look at the list and determine which items you really need and which you can reduce or do without.

Worksheet 13-1: Baby Expenses

Expense	Monthly Costs
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
TOTAL:	\$

Creating a Nine-Month Savings Budget

Although the long gestation period for human babies results in a lot of

discomfort for the mother, there is one silver lining: You get nine months to save up for the added expense a baby brings. Think of the time until your baby is born as your best chance to save. Cut back on every possible expense between now and then (see [Chapters 7 through 9](#) for more ideas), and save every penny you can.

Having money in savings when your baby is born can help in a variety of ways: You can pay for medical expenses; use it to live on should you or your spouse decide not to return to work; pay for a day care provider; use it as a cushion against unexpected repairs on your house or car, and so on. Use Worksheet 13-2 to help you determine how much you can save.

Choosing a Daytime Care Provider

Before your baby is born, you'll want to decide who is going to care for this baby throughout the workday. If you currently work nine or ten hours per day, someone has to be watching the baby during that time. The following sections review your child care options, which are presented in no particular order.

■ BUDGETING TIP

If you plan to put a newborn in day care or with a babysitter, find out from your physician how to use a breast pump, so that your baby can continue to use breastmilk as his or her source of food. While this is not the most convenient way to feed your baby, it is the healthiest—and the cheapest!

Day Care Center

Day care centers have been growing steadily in popularity for the last twenty years or so. In a day care center, which ranges in cost from a low of about \$150 per week to a high of about \$500 per week, your child will be one of many children his or her age. The setting is usually very much like a school, except, perhaps, brighter and a bit cozier. Children are usually fed a couple of snacks and a lunch; they may or may not play outside very much. Some day care centers accept newborns, while others take only children who are six months of age or older.

To find out which centers are the best in your area, ask friends, family, neighbors, and coworkers for recommendations. Then visit the center, more than once, if possible. Although you'll want to arrange a visit for your first time, feel free to drop in unannounced the next time. You have every right to see how children at the center are treated all the time, not just when a parent is expected.

If you're lucky enough to have an on-site day care center at work, you'll be able to spend your work breaks and lunch with your child, and you may even pay a discounted fee for child care. On-site day care centers are rare, so if you have one, consider it one of your best options. If you don't, consider looking for a new job that does include this benefit.

■ BUDGETING TIP

Some university early childhood education programs run on-campus day care centers at which students in the program can study the children. These centers often offer reduced rates, especially to children of students or faculty members.

Daytime Babysitter

Another option is to use a daytime babysitter, either in your own home or in the home of the babysitter. (Live-in nannies, who work for room, board, and a small salary, fall under this category.) Usually, daytime babysitters care for only a few children of varying ages at one time—their own and one or two others. Even the most caring babysitter can't watch, care for, and stimulate more children than that at one time. Some daytime babysitters are able to take on newborns; others choose not to. Babysitters usually, but not always, prefer to stay in their own homes during the day. They may ask you to provide lunch and snacks, or they may provide them for you (charging more, of course, for that service). Prices range from a low of \$120 a week to a high of several hundred per week. Live-in nannies can be the most expensive because they require their own bedrooms and baths, plus food and a small salary.

Personal recommendations from family, friends, neighbors, and coworkers are the best way to locate a daytime babysitter.

Worksheet 13-2: A Nine-Month Savings Budget

Monthly Expense	Amount	Ways to Reduce/ Eliminate	New Amount
Savings for the baby	\$	N/A	\$
Groceries and household items	\$		\$
Contributions	\$		\$
Rent on furniture or appliances	\$		\$
Entertainment/baby-sitting	\$		\$
Eating out	\$		\$
Rent or mortgage	\$		\$
Car payment or lease	\$		\$
Electric bill (average)	\$		\$
Gas bill (average)	\$		\$
Water bill	\$		\$
Sewer bill	\$		\$
Trash pickup bill	\$		\$
Cable/DSL/satellite bill	\$		\$
Telephone bill	\$		\$

Monthly Expense	Amount	Ways to Reduce/ Eliminate	New Amount
Cell phone bill	\$		\$
Bank charges	\$		\$
Haircuts/manicures/pedicures	\$		\$
Home equity loan	\$		\$
Other loan	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Child support or alimony	\$		\$
Car maintenance	\$		\$
House maintenance	\$		\$
Auto insurance	\$		\$
Property taxes	\$		\$
Gifts	\$		\$
Events to attend	\$		\$
Clothing and shoes	\$		\$
Home insurance	\$		\$
Vehicle registration	\$		\$
Vacation	\$		\$
Club membership	\$		\$
	\$		\$
TOTAL:			\$

Grandparents

Having one of your child’s grandparents care for him or her is exactly like using a daytime babysitter, except that grandparents usually charge far less. In fact, some grandparents who are retired are eager to spend as much time as possible with their grandchildren and don’t charge a penny for the service. While this is often the case, don’t expect it from your own parents. If a grandparent has offered to care for your child during the day, discuss fees early in the conversation.

You or Your Spouse

The advantage of having others care for your child is that you can continue working as you have in the past. The disadvantages are

threefold:

- People with other values, disciplinary tactics, energy levels, and education levels are caring for your child.
- You get to spend far less time—and often the times when you're most fatigued—with your child.
- Paying for a child care provider often costs more than your income brings in after taxes, commuting costs, dry cleaning, and so on, are subtracted.

As a result, many people choose to care for their own children. You can do this in a variety of ways:

- Work a different shift than your spouse does (either full time or part time), and each care for your child while the other works.
- Both of you work part time (for example, one works mornings and the other works afternoons), and each care for your child while the other works.
- One works full time and the other cares for your child during the workday.

If you both decide to work, but on different shifts, you won't experience any reduction in pay, which is good. The downside, however, is that you and your spouse will rarely see each other, and you didn't get married so that you could leave each other notes on the kitchen counter. If you choose this option, it should be extremely temporary. For example, until you can save enough for one of you to stay home full time or until the baby is old enough to be accepted at a day care facility.

Living on One Income

If you or your spouse plans to care for your child, you'll have to decide which one is best equipped to do this. Nowhere is it written that women are better at caring for their children full time than men are, so if the child's father is willing and able to leave his job to care for the baby, that may well be your best option.

Many people decide who will stay home based solely on finances: The

person with the best-paying job keeps working, while the other stays home. Don't forget, however, to factor in health insurance (if both have it, whose is cheaper and better?) and the commute. Worksheet 13-3 can help you work through the numbers.

Whenever possible, don't base this decision entirely on finances. One parent may simply be better suited to or more interested in providing child care and will, therefore, be better at it. Factor this into your equation, too.

Worksheet 13-3: Are Two Incomes Better Than One?

Income	Working	Staying Home
Take-home pay	\$	\$
Lost retirement contribution	\$	\$
Total Income:	\$	\$
Expense	Working	Staying Home
Outside child care costs	\$	\$
Increased health insurance costs	\$	\$
Decrease in car expenses	\$	\$
Decrease in lunches out	\$	\$
Decrease in dry-cleaning	\$	\$
Increase in heating and electricity	\$	\$
TOTAL:	\$	\$

Creating a Budget for Your New Family

Now that you have an idea of the expenses your new baby will bring,

along with the potential loss of income that caring for your child can entail, you can create a new, baby-friendly budget. Use Worksheet 13-4 (and the instructions for developing and refining a budget in [Chapter 6](#)) to determine how you're going to afford your new baby.

Worksheet 13-4: New-Baby Budget

Monthly Expense	Amount	Ways to Reduce/ Eliminate	New Amount
Groceries and household items	\$		\$
Contributions	\$		\$
Savings	\$		\$
Rent on furniture or appliances	\$		\$
Entertainment/baby-sitting	\$		\$
Eating out	\$		\$
Rent or mortgage	\$		\$
Car payment or lease	\$		\$
Electric bill (average)	\$		\$
Gas bill (average)	\$		\$
Water bill	\$		\$
Sewer bill	\$		\$
Trash pickup bill	\$		\$
Cable/DSL/satellite bill	\$		\$
Telephone bill	\$		\$
Cell phone bill	\$		\$
Bank charges	\$		\$
Haircuts/manicures/pedicures	\$		\$
Home equity loan	\$		\$
Other loan	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$

Monthly Expense	Amount	Ways to Reduce/ Eliminate	New Amount
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Child support or alimony	\$		\$
Car maintenance	\$		\$
House maintenance	\$		\$
Auto insurance	\$		\$
Property taxes	\$		\$
Gifts	\$		\$
Events to attend	\$		\$
Clothing and shoes	\$		\$
Home insurance	\$		\$
Vehicle registration	\$		\$
Vacation	\$		\$
Club membership	\$		\$
Other:	\$		\$
Other:	\$		\$
TOTAL:			\$

Chapter 14

Your Biggest Purchase

As mentioned in the previous chapter, for some couples the birth of a child means a move to a larger house or the purchase of a “starter home.” For others—whether couples or single—the purchase of a house is simply the next step in the American Dream. Although house ownership has declined sharply since the beginning of the 2008 recession and the collapse of the housing bubble, hundreds of thousands of people still purchase houses. Buying a house represents one of the biggest, if not *the* biggest purchase you’ll make in your lifetime. It’s where many of the budgeting skills you’ve honed in the previous chapters will come into play.

Buying a House Instead of Renting

The first question you’ll have to consider is whether buying a house, as opposed to renting one, makes budgetary and personal sense for you. If you’re currently paying a hefty monthly rent on your house or apartment, you should consider buying a house. Keep in mind that buying a house isn’t always a good idea—in fact, when you’re strapped for money and/or in debt, it may be a terrible idea. You may have trouble qualifying for a mortgage, and you might end up paying more (in the short term) for a house in property taxes, homeowner’s insurance, maintenance, and repairs.

Assuming you can qualify for a mortgage (and it’s always a good idea to get preapproved by a lender—a process that’s usually free), consider the following two situations that make financial sense when you’re thinking of buying a house:

1. You can mortgage a house that has some repair and maintenance needs on a fifteen-year loan for 60 percent (or less) of what you pay now.

2. You can mortgage a new, quality house for fifteen years for the same or a little more than you're paying now. (More on these points later.)

In the first situation, you'll see an immediate improvement in your financial situation, but down the road, you may incur maintenance and repair costs that can add up. In the second situation, you won't see much of a change in your immediate financial picture, but you'll reap major benefits in the future.

■ BUDGETING TIP

Experts often distinguish between “good debt” and “bad debt.” Bad debt is, generally speaking, credit card debt. Mortgage debt, on the other hand, is a good type of debt. The reasoning is that because the price of houses tends to appreciate (go up) with time, when people sell their homes they can pay off the debt on the house and still have plenty of money left over. In addition, you get a rare tax break on the interest you pay on your mortgage. This argument was very popular before 2008, although the crash of the housing market and the sudden decline in housing prices has made it more questionable today.

Worksheet 14-1 helps you decide whether buying is better than renting for your specific situation.

Worksheet 14-1: Buying versus Renting

Rent		Buy	
Monthly payment*	\$	Monthly payment	\$
Renter's insurance	\$	Homeowner's insurance	\$
Utilities	\$	Utilities	\$
		Property taxes	\$
		Maintenance (estimate)	\$
		Homeowner's-association dues	\$
Total per month	\$	Total per month	\$
	× 360**		× 360**
Thirty-Year Cost	\$	Thirty-Year Cost	\$

*Keep in mind that your rent is likely to rise sharply over the next thirty years!

**If you plan to mortgage your house for fifteen years, multiply by 180.

Note: This worksheet does not take into account the potential tax savings associated with home ownership.

Renting Instead of Buying

Wait—doesn't this section say just the opposite of everything the last section touted? It does, but owning a house isn't for everyone—nor is it always the most economical way to go. If you're planning to live in an area for two years or less, if you live in an area that has very high real estate costs, or if interest rates are quite high, stick to renting for a while.

Figuring Out the Financing Details

Let's assume that you've gone through the exercise of Worksheet 14-1. You've thought long and hard about it and decided that buying a home is the best thing for you. What now?

Most people have to finance a house in order to buy it. Of course, some shrewd budgeters—especially those who are nearing retirement—have a paid-off house, so when they go to sell it, they pocket the money and can pay cash for the next one.

Ultimately, most people want to know how much the monthly payment will be, and that's a function of the length of mortgage you choose (fifteen years versus thirty years, for example), your down

payment, and the prevailing interest rate. To find out how much of a monthly payment you'll end up owing, visit SmartMoney's Mortgage Payment Calculator at www.smartmoney.com. Click on the Tools tab, click on the Real Estate link from the dropdown menu, and click on Mortgage Calculator. There you'll find out everything from how much your monthly payment will be to how much of a difference the mortgage length, down payment, and interest rate make.

Don't forget to add on the cost of PMI (private mortgage insurance) and escrow to the monthly bill. Although not everyone has to pay these costs (they're discussed in "Recognizing Other Costs of Low-Down-Payment Mortgages" later in this chapter), if you do, they will be added to your monthly payment amount.

Choosing Your Mortgage Length

In order to know how much you'll need to save to buy a house, you first need to make some basic mortgage decisions. This section (as well as the next two) helps you understand some of the financial decisions surrounding buying your house.

■ BUDGETING TIP

Your equity (the value of your home minus the amount of your mortgage) increases as you pay off your mortgage and as your house increases in value. If you pay more than the amount due each month, you'll increase your equity much faster than if you pay only the minimum amount due.

Although choosing your mortgage length may seem like a simple, straightforward decision, it's actually one that will have a tremendous impact on your financial security over the next several decades of your life.

Thirty-Year versus Fifteen-Year Mortgages

The majority of Americans getting a new mortgage on a home opt for a thirty-year loan without even considering other options. A thirty-year loan is what all your friends, family, and neighbors have probably signed

up for, and it does make the monthly payment much more affordable than a fifteen-year mortgage.

So what's the problem with getting a thirty-year mortgage? Although the following is a general statement that doesn't hold true for every mortgage amount and every interest rate, here's a simple rule of thumb: With a thirty-year loan, you'll end up paying a little less than one and a half times the mortgage amount in interest over the life of the loan. This means that if you buy a \$100,000 house, you'll pay nearly \$140,000 in addition to the price of the home, just for the privilege of stringing the payments out over thirty years. Now think about what you could do with \$140,000! That would make a pretty good retirement nest egg, wouldn't it? Whatever you'd like to spend \$140,000 on, spending it on virtually nothing doesn't seem like a very good idea, yet that's what you do when you get a thirty-year loan.

Proponents of mortgages will tell you that because you can deduct the mortgage interest on Schedule A of your federal income tax return, spending all that money on mortgage interest is a good idea, but the numbers don't bear that out. Suppose you pay \$6,400 per year in interest on your mortgage, and you're in a 22 percent tax bracket. This means you can deduct \$1,408 from your taxes this year. Over the life of a thirty-year loan, that's \$42,240 in taxes you don't have to pay and can put into your retirement, business, or Corvette fund. But if you pay \$140,000 in interest over those thirty years, you're still out nearly \$100,000 in interest!

A better idea is to reduce the life of your loan to fifteen years, or less. If you pay off that same house in fifteen years, you'll pay only about \$60,000 in interest and get about \$10,500 in tax savings. This means that by paying off your mortgage fifteen years early (even if you take the tax deductions), you've earned yourself a \$50,000 gift.

Generally, you'll find two lengths of mortgages: fifteen years or thirty years. Occasionally, you might be able to get a mortgage for a length other than fifteen or thirty years, but few lenders offer them. If your goal is to pay off your house in full as soon as possible, and if you have a large down payment, ask about a five-or ten-year mortgage. They're rare and may require some additional costs and paperwork, but locking in to a short mortgage will force you to pay it off quickly.

Paying Any Mortgage Off Early

Another way to shorten your mortgage, however, is to simply pay more than the required amount each month. Here's another simple rule: If you make one extra payment per year (or if you divide the amount of one payment by twelve months and add that to each month's payment), you'll cut about seven years off the life of your thirty-year loan.

■ BUDGETING TIP

To pay off your house in ten years, use a mortgage calculator (or ask your lender) to figure out how much extra you'll need to pay each month. Pay that extra amount each month, and in ten years, the mortgage will be paid off.

Although you may want to lock in the shortest possible mortgage length to take advantage of the lower interest rate that goes along with it, going with a longer mortgage length may give you more flexibility in your finances. For example, you can get the great rate associated with a fifteen-year loan, but plan to pay it off in ten years. Of course, if you're not disciplined enough to pay the extra, lock in that higher payment.

Deciding on a Down Payment

Just one or two generations ago, you couldn't buy a house without a 20 percent down payment. That meant that many people were effectively locked out of ever owning a home. So the last twenty years have seen major changes in how Americans buy homes. Prior to the 2008 recession, it was possible to buy homes for 3 percent, 1 percent, or even 0 percent down. These heady days are over, and perhaps it's a good thing. While these smaller down payments allowed more people than ever to afford home ownership, they (in combination with home equity lines of credit and second mortgages) made the concept of having a lot of equity in your house—and eventually paying it off—seem old-fashioned.

Here's the thing, though: Not only is a big down payment *not* old-fashioned, it actually makes great financial sense. You know from the preceding section that paying off your loan in fifteen years instead of

thirty saves you a bundle of money. In the same way, the larger you can make your down payment, the more you're going to save on interest charges over the life of your loan. This is because you finance the amount of house that you don't own, and you own all of your down payment. So, if you put \$40,000 down on a \$200,000 house, you incur finance charges only on your \$160,000 mortgage, but if you put zero down, you'll pay much more in interest over the life of the loan because you'll incur finance charges on \$200,000.

Seeing the Big Picture, Not Just the Monthly Payment

Many people think only in terms of monthly payment, and the truth is, each \$1,000 you put down on your house lowers your payment by only a few dollars a month. To really expand your financial opportunities, though, and have lots of options for how you live your life, try seeing beyond the monthly payments to the loan amount itself. If you can put 20 percent down on a house and pay it off in ten years by making very aggressive payments each month, in ten years you'll have way more income than you'll know what to do with! The point is, you'll have options that simply don't exist if you lock in to a 3 percent down, thirty-year mortgage.

A Closer Look at Low-Down-Payment Mortgages

With a low-down-payment mortgage, you'll incur a few other costs, too. When you put less than 20 percent down on a house, your lender will collect a portion of your homeowner's insurance and property taxes every month and hold it in escrow (a fancy name for a savings account), and then pay your taxes and insurance directly. This "convenience" costs you plenty, however, because the bank—not you—earns interest on that escrow account, sometimes as much as a few hundred dollars a year! If you make a larger down payment, or as you build up equity in your house, you can eliminate that escrow account.

■ BUDGETING TIP

A common theory is that instead of putting a big down payment into your house, you should put down as little as possible and invest that money instead. Look at this option carefully, though.

Most investments don't regularly make more than the 6 percent to 8 percent a year that many mortgages charge. Chances are, you'll come out exactly even.

In addition, when you put less than 20 percent down, the lender will probably charge you PMI (private mortgage insurance), which insures the lender against the potential of your defaulting on the mortgage. But what most people don't know is that as you build up equity in your house, you can get your PMI canceled. Ask your lender about its PMI rules.

Reviewing Your Interest Rate Options

Whether to go with a fixed-or variable-interest loan is an easier question than how long to make your mortgage or how large to make your down payment.

Here's the rule: If interest rates are relatively low, get a fixed-rate loan, which means that the interest rate will stay the same throughout the life of your loan. If interest rates are high, however, get a variable-rate loan that changes daily, weekly, or monthly—it's sure to come down when interest rates drop again.

Most variable-rate loans are for just five years or so. The idea is that you'll refinance at the end of that time (or sooner) and lock into a lower, fixed-interest rate. If interest rates are not low when you buy a house, plan to refinance when they drop—and work the costs associated with refinancing (called closing costs, which are discussed in “Understanding Closing Expenses” near the end of this chapter) into your budgeted savings.

Shopping for Your New Home

Shopping for a new home can be stressful, but it can also be great fun. The following sections can help you understand some of the ins and outs of shopping for your new home. And don't forget to visit the government's Ginnie Mae website at www.ginniemae.gov. There you'll find a Homeownership Information Center that can give you plenty of details about home ownership.

■ BUDGETING TIP

The house you buy should be relatively soundproof; have a friend walk upstairs while you're downstairs and talk out loud from an adjoining room with the doors shut. Also look for heavy doors, insulated windows, and quality flooring. Finally, look for a house that, in the last five years, has received a new roof, furnace, and windows. I *strongly* recommend scheduling a house inspection, conducted by a certified inspector, before you purchase any property.

Getting Preapproved

Preapproval means that you're definitely going to qualify for a mortgage if you buy a house in a particular price range. Sellers like preapproved buyers because the sellers have the assurance that if they accept a preapproved buyer's bid, the deal will very likely go through. Accepting a bid from a buyer who isn't preapproved doesn't carry this same guarantee.

Note that preapproval is different from prequalification. Prequalification isn't worth the paper it's printed on—it just means that the lender is eager to find out more about you and decide whether you're a worthy credit risk.

Working Alone or with a Realtor

If you're a first-time home buyer, you probably want to work with a Realtor, who will show you a variety of homes in your price range. Using a Realtor isn't mandatory, of course, and some seasoned home buyers often don't use them unless they're trying to buy a house in a different city or in a very short time frame.

Making an Offer

When you find the home of your dreams, you need to make an offer on the house. In some areas where housing is in great demand and prices are exorbitantly high, sellers won't even consider an offer that isn't at or above the asking price (that's the price advertised). But in many areas, offering 5 to 10 percent less than the asking price is standard practice. An experienced Realtor can shed some light on which type of offer you should make.

■ BUDGETING TIP

Whatever you do, don't buy a poorly built house in a bad location to save money. If you choose a bad location, you're likely to have a hard time reselling the house in the future. If you buy a house that's in need of substantial repair or was made with cheap components, you'll end up being overloaded with repairs and maintenance.

Even if you submit an offer at or above the asking price, it's still not guaranteed to be accepted. Sellers can pretty much do whatever they want with offers—except discriminate against you on the basis of ethnicity, gender, or religion.

When you write up an offer, be sure to make the sale of the house contingent on the following:

- Selling your existing house (so you're not stuck with two houses)
- A clean inspection (or that defects found during an inspection will be repaired by the seller)
- A clear title (that no one else actually owns the house)
- Obtaining financing (so that you're not legally obligated to buy the house by paying cash for it)
- Including everything you list in the offer (Do you expect the sellers to leave the appliances, curtains, and wooden flower pots on the porch?)

Selling Your Existing Home

If you own a home already, you'll probably want to sell it before moving into your new home. Selling a house is a big job, so don't plan on spending any time on your hobbies for a while!

Working Alone or with a Realtor

The first decision you have to make is whether you want to sell it yourself or use a Realtor. Unlike when you're buying a house, this decision is about more than convenience, it's about money. Realtors charge the seller, not the buyer, for their services. If a Realtor lists your house and brings you a buyer for it, that agent gets a 6 or 7 percent

commission. If, on the other hand, a Realtor lists your house and another agent brings a buyer for it, the two agents split the 6 or 7 percent commission between them.

This can end up being a lot of money. Some real-estate agents earn every penny of that commission, and you can't figure out how you ever lived without them. But others just don't do \$3-, \$4-, or \$10,000 worth of work, and your house languishes.

If you've never sold a house before, you may want to use a Realtor. But if you're experienced at buying and selling houses and/or you're confident in your ability to market your own house successfully, go it alone. You'll find blank real-estate conveyance forms at your local library, and you'll probably pay \$500 or \$1,000 (splitting this fee with the buyer) to a local lawyer to draw up the paperwork.

Getting It Ready to Sell

If you've been living in your house the way most people do, your house probably isn't ready to sell. Houses that are up for sale have usually had many small repairs made, windows and siding cleaned, mailbox replaced, fences and interior walls spruced up and painted, flowerbeds weeded and new ones planted, and so on. Many real estate professionals also recommend replacing every light bulb in your house with a new one, and then turning on all the lights in your house whenever a potential buyer tours it. Some people also bake bread every time someone is coming to see a house; the homey smell makes people think they want to live there forever!

Pricing Your House

A real estate agent can price your house for you or you can either price it yourself (keeping in mind that most people tend to overprice their homes), basing your estimate on similar homes you've seen for sale in your area, or hire an appraiser (this will cost you \$50-\$350). Pricing houses isn't an exact science, but if you start too high, you can always bring the price down, although by that time you may have scared some people away. If you start too low, you'll probably have a quick sale, but you may lose several thousand dollars in the process.

Reviewing Your Offers

Reviewing offers is the fun part, assuming they're high enough for you to want to accept any of them. Most potential buyers expect to hear back in twenty-four hours, but you can take longer if you need to.

Be sure to read the offer carefully so you know everything the buyers expect you to leave or fix up. If you don't think an offer is high enough or you don't like some of the provisions and contingencies in the offer, you can propose a counteroffer. Be prepared, however, for the buyer to walk away upon reviewing your counteroffer.

■ BUDGETING TIP

If you're not getting any nibbles—especially if you've decided against using a Realtor—hold an open house. Advertise the open house a few days before the event in the classified section of your local paper (and online) and, if you like, with a yard sign. Make the house as attractive as possible and offer snacks throughout the day.

Understanding Closing Expenses

Closing expenses (also called closing costs) are the expenses associated with transferring your property from you to your buyer. You pay these expenses at closing—a low-key event in which the buyer brings money and the seller gets money. Generally, closing costs for the buyer are added to the mortgage amount or paid as an additional down payment (although a few have to be paid before the closing), while closing costs for the seller are subtracted from the settlement check. Who pays what is up for negotiation. Sometimes an eager seller will offer to pay all of the buyer's closing costs. Most of the time, however, the buyer pays the majority of the closing costs:

- **Mortgage points.** Money paid by the buyer to lower the interest rate for the loan. (One point equals 1 percent of the loan amount.) When interest rates are low, few people pay points; when they're high, these costs can skyrocket.
- **Loan origination fee.** Administrative cost of processing the loan, paid by the buyer. Usually 1 to 2 percent of the loan amount.

- **Credit report.** Usually around \$50, and may be paid by the buyer when the loan is first applied for.
- **Prepaid interest.** Interest owed by the buyer for the part of the month that comes after the closing date. Always try to close on the last day of the month so you won't owe any prepaid interest.
- **Escrow.** The first payment to the buyer's escrow account, which will be used to collect monthly partial payments for insurance and property taxes and pay them when they're due.
- **Title Insurance.** A search to ensure that the seller actually owns the house. May be paid by seller or buyer.
- **Recording fee.** Fee to record the transfer of ownership. Often paid by the seller.
- **Appraisal.** Determines the estimated value of the house. Usually costs around \$300 and may be due when the buyer applies for the loan.
- **Survey.** Determines the house's property lines; costs buyer or seller around \$150 to \$350.
- **Pest inspection.** Ensures a pest-free (read that: termite-free) house and costs the buyer about \$125.
- **Property taxes.** Most property taxes are paid one year after they are incurred, so you pay your 2011 property taxes in 2012. For this reason, the seller may have to pay six months' or a year's worth of property taxes to settle the bill.
- **Insurance policy payment.** The buyer pays for one year of insurance in advance and/or brings proof that insurance for the house has been purchased.

Use Worksheet 14-2 to estimate your closing costs. Your lender should give you an estimate early in the paperwork process.

Worksheet 14-2: Closing Expenses

Mortgage points	\$
Loan-origination fee	\$
Credit report	\$
Prepaid interest	\$

Prepaid interest	¢
Escrow	\$
Title insurance	\$
Recording fee	\$
Appraisal	\$
Survey	\$
Pest inspection	\$
Property taxes	\$
Insurance policy payment	\$
TOTAL:	\$

Managing Unexpected Household Expenses

Generally, you'll want to put a little money away each month into a savings account and earmark it for household repairs. Even if you bought a brand-new, just-built house, at some point you'll have to repair loose shingles on the roof or upgrade the wiring, or whatever! Putting just \$10 or \$20 into an account each month will make those repairs so much easier to make. (Or course, if you bought a fixer-upper, you're going to want to put quite a bit more cash into savings for your many upcoming repairs.)

If you do end up needing a repair that wipes out your savings and gets your monthly financial obligations off track, contact your lender immediately. You may be able to take out some of the equity to pay for the repair, refinance your mortgage to include the repair costs, or just get an extra month to make your payment this time. The point is, you have to make contact the second you realize that either your mortgage payment or the integrity of your house (if you don't make the repair) may be in jeopardy.

■ BUDGETING TIP

Never let your mortgage get so far behind that your lender threatens foreclosure. You're much better off selling your house and moving to a smaller one that you can better afford long before your situation ever gets to this point.

Creating a Budget That Includes Your New Home

You may have to make several changes to your budget in order to buy a new home. The first change includes saving for a down payment, while the second change—a few months or years later—will include your new monthly mortgage payment (including the extra you want to pay each month to pay it off early) and savings for repairs and maintenance. A third budget might show how you plan to change your spending after your house is paid off. Use Worksheet 14-3 to work on your new budget(s).

If you do get into trouble and are facing foreclosure, beware of scam artists, often calling themselves mortgage consultants or offering foreclosure services, who offer to talk to your mortgage lender or intervene on your behalf to help you refinance. Not only will they charge you an up-front fee for this “service,” they will often get the title to your home transferred to their company, pocket your fee, and then declare bankruptcy on your behalf. You end up without your home and with a bankruptcy blemish on your credit report for years afterward.

Worksheet 14-3: A New-House Budget

Monthly Expense	Amount	Ways to Reduce/ Eliminate	New Amount
Savings for down payment	\$	N/A	\$
Groceries and household items	\$		\$
Day care	\$		\$
Contributions	\$		\$
Savings	\$		\$
Rent on furniture or appliances	\$		\$
Entertainment/baby-sitting	\$		\$
Eating out	\$		\$
Rent or mortgage	\$		\$
Car payment or lease	\$		\$
Electric bill (average)	\$		\$
Gas bill (average)	\$		\$
Water bill	\$		\$
Sewer bill	\$		\$
Trash pickup bill	\$		\$
Cable/DSL/satellite bill	\$		\$
Telephone bill	\$		\$
Cell phone bill	\$		\$
Bank charges	\$		\$
Haircuts/manicures/pedicures	\$		\$
Home equity loan	\$		\$
Other loan	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$

Monthly Expense	Amount	Ways to Reduce/ Eliminate	New Amount
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Child support or alimony	\$		\$
Car maintenance	\$		\$
House maintenance	\$		\$
Auto insurance	\$		\$
Property taxes	\$		\$
Gifts	\$		\$
Events to attend	\$		\$
Clothing and shoes	\$		\$
Home insurance	\$		\$
Vehicle registration	\$		\$
Vacation	\$		\$
Club membership	\$		\$
Other:	\$		\$
Other:	\$		\$
TOTAL:			\$

If your financial obligations exceed your income by so much that creating a budget seems impossible right now, take steps to cut your biggest expenses over the next few months and years. These are not easy cuts to make, but they can help you get back on solid financial footing.

Moving to a Smaller House

Real estate agents and mortgage lenders can be awfully generous with your money. When you go house hunting, both will tell you that you can afford a lot of house—it's in their best interest to do so. Real estate agents are paid a percentage of the price of the house you buy, and mortgage lenders earn their money on fees and interest that rise with the purchase price of your home.

But neither of these parties has any interest in helping you manage your money over the long haul. Even mortgage lenders only care about whether you'll repay the loan on time, not whether you can barely make ends meet or are getting yourself deeper into credit card debt each year.

Real estate agents and mortgage lenders aren't the only people who influence you to want to live in a big, expensive house. Advertising,

movies, TV shows, and other forms of media send a clear message that the bigger and more expensive your house, the more you should be respected in this world.

■ BUDGETING TIP

Worried that you won't be able to fit all your stuff into a smaller house? Just accept that you won't fit it all in, hold a tag sale (see [Chapter 10](#)), and get rid of as much of it as you can! Everyone buys enough stuff to fill whatever size house they're currently living in.

Thinking “Not So Big”

Want to get on solid financial footing? Then forget what society and your friends, family, and coworkers say about big houses. Instead, put your house up for sale and set out to find the smallest house in the best neighborhood with the best schools. House prices are usually based on square footage, quality, and location—location often being the most important. (This is why tiny, fixer-upper, ocean-view houses can cost ten or twenty times more than similar houses inland.) You don't want to skimp on quality and location; instead, the trick is to reduce your square footage.

You can probably live in half the square footage you're living in now if you pare down some of your belongings and live more efficiently. (At your local library, flip through a copy of *The Not So Big House* by Sarah Susanka (Taunton Press, 2001), along with several spinoff books in the same vein.) So aim for this: If you're living in a 2,500-square-foot house, look at houses that are 1,200 or 1,300 square feet. If you find this is just too cramped for your family, move up 100 to 300 square feet, but not much more than that. Your new house has to be substantially cheaper to make the move worthwhile.

Considering the Costs of Moving

You will have expenses associated with moving, but if you move to a house that saves you enough money each month, those expenses will be worthwhile. (If you need to, you can even finance the costs of getting a new mortgage right into your monthly payments. And if credit card debt

is crushing you, you may also be able to pay off those credit cards at the same time.) Worksheet 14-4 helps you work through some of the costs of moving versus staying.

Worksheet 14-4: Moving versus Staying

Expense	If You Move	If You Stay
Monthly mortgage	\$	\$
Closing costs	\$	\$0
Utilities	\$	\$
Moving costs	\$	\$0
Expected repairs	\$	\$
	\$	
	\$	
	\$	
	\$	
TOTAL:	\$	

Keep in mind that if you're in a poor financial situation, mortgage lenders may not approve you for a loan right now. Before you put your current house up for sale, get preapproved for a mortgage. You don't want to sell your house and then find that you aren't in a position to get another mortgage at this time.

Try to finance your new mortgage for the exact same number of years (or very close) that you have left on your current mortgage. Sure, your monthly payments will be lower if you increase the life of your loan, but you'll weaken your financial future in the process.

Chapter 15

Finding Money in Your House

When you think of finding money in your home, you probably think of those pennies and dimes that find their way under the cushions of your couch. Or perhaps you think of the hideous painting your uncle left you that's sure to be worth millions at an auction.

But the real trick to finding money in your house is to understand how to reduce your monthly mortgage payment (which is probably your largest financial obligation each month) and/or tap your equity.

If interest rates are lower than they were when you bought your existing house, and if you plan to stay in your house for at least two more years, you should consider refinancing. Refinancing can represent a sudden injection of money into your budget, money that can be applied to many different things—most particularly to the paying down of debt.

When you refinance, you stay in your current house but get a new loan at a lower interest rate than you got on your first mortgage. Ideally, you want to keep the same number of years in your new mortgage as you have left on your old one.

While you want to shop around for the best refinancing interest rates, also shop around for closing costs—the costs associated with sealing the deal on your refinancing. Your current lender may have a slightly higher interest rate than other lenders, but may not charge you for a new inspection, new credit report, and so on. Keep in mind, too, that you can often roll these costs into your mortgage.

When you refinance, many lenders will offer you cash to pay off your credit card debt, to take a vacation, or to spend on whatever you feel like buying, using the equity in your home (the amount your house is worth minus the amount you owe). If your debts are crushing you, you may decide to use the equity to pay them off and start with a clean slate (see the following section). But if you would use that money for anything other than getting rid of large amounts of high-interest debt,

don't succumb to this sneaky trick on the part of lenders. They just want your loan to be bigger so they can make more money. But you want your loan to be smaller—both in terms of monthly payments and the number of years before you pay it off—so don't ever take this option unless you're absolutely sure you will use the cash effectively.

■ BUDGETING TIP

Remember that refinancing your car or house doesn't mean you shirk your financial responsibility on these loans. Instead, by locking in a lower interest rate than you originally borrowed at, you can either reduce your monthly payments or keep the same monthly payments and reduce the length of your loan.

Many people ask how much lower than your current interest rate your new mortgage interest rate has to be to make refinancing worthwhile. Some say the rule is two percentage points. Others say that even half a percentage point can make a difference for some mortgages. To find out how much difference one percentage point can make, visit www.smartmoney.com and follow the links to Tools, Real Estate, Should You Refinance? If you don't have a computer, take a trip to your local library to use its Internet service.) There you'll find just about the coolest mortgage calculator ever invented. Type in your mortgage information, and you can see the impact of changing not only the interest rate, but also any extra payments you might want to make each month (under the prepayments section), lump-sum payments (like putting a bonus from work toward your mortgage), changing the length of the mortgage, and so on.

Understanding Equity

We've discussed equity before, briefly, back in [Chapter 3](#) when we were talking about assets. Equity is the portion of your house that you own, mortgage-free. Remember: You can calculate your equity as follows:

1. Determine the current value of your home. This amount may be higher, and in some cases, *much* higher, than the amount you paid

for it. The value may also be lower than what you paid if the house was overvalued when you bought it or if the real estate market in your area has slumped. A mortgage company requires an appraisal, done by a professional, to determine this value, but you can guess, based on what homes in your neighborhood have been selling for.

2. Determine the current payoff on your mortgage. If you don't receive a monthly statement or receipt that tells you the payoff amount, call your mortgage company and ask for it.
3. Subtract the payoff from the current value. This is the equity in your home.

Instead of calculating the current value of your home, some lenders use the value when you bought the home. If that was more than a couple of years ago, the current value may be much higher.

Refinancing Your Home and Taking Out Equity

Refinancing your home and turning some of the equity in your home into cash is a logical way to ease your current debt load. Refinancing is simply financing your mortgage again in an attempt to decrease your monthly payments, the interest rate of your mortgage, the length of your loan, or all three.

Suppose your house is worth \$170,000, you financed \$153,000, and you currently owe \$120,000. Your equity is \$50,000. If you refinance without touching the equity, your new loan will be for \$120,000, which will make your payments lower than when you bought the house. And if interest rates are lower than when you first obtained your mortgage, your payments will be lower still. You can then decide whether you want to decrease the length of your loan (say, from thirty years to fifteen) while keeping the same monthly payment as before, or whether you want to keep the length of the loan the same and have a lower debt obligation every month.

You can, however, also use some of the equity in your house to pay off other debts. Refinancing and removing equity at the same time amounts to getting a new loan for a higher amount than you currently owe on

your home. Instead of refinancing your home for \$120,000, you can receive cash for some portion of your equity—perhaps \$15,000—and refinance for \$135,000 (\$120,000 owed on your mortgage plus \$15,000 cash).

■ BUDGETING TIP

Not all of the equity in your home will be available for you to cash in. Some lenders require you to keep 20 to 25 percent of your home's value as an ongoing down payment. Other lenders don't allow you to use the current value of your home, and instead use the original purchase price to determine your equity.

Do You Have Enough Equity?

If you bought your house with a 3 percent down payment on a thirty-year loan four years ago, and your house hasn't increased much in value, you may not have enough equity to tap. Thirty-year loans are notorious for building equity very slowly. In fact, if you finance \$100,000 on a thirty-year loan at 7 percent with \$5,000 down, you'll have paid just \$4,400 of your \$100,000 mortgage after four years, and only \$13,600 after ten years. On an identical loan for fifteen years, though, you'll have chewed up almost \$17,000 of your mortgage after four years, and nearly \$53,000 after ten years.

Before applying for a refinance with cash back, make sure you have enough equity. Keep in mind, however, that when interest rates are lower than they were for your original loan, you should still consider refinancing without cashing out any of your equity, either to lower your monthly payments and relieve some of your monthly debt or to reduce your mortgage to fifteen years, allowing you more options for saving for retirement or your child's college education.

Do You Have a Solid Retirement Plan?

This may seem like an odd question in a chapter about tapping your home's equity. If your retirement years are well provided for, either by your company's retirement plan or by investments you've made, lowering the equity in your house by refinancing and getting cash back

is a fine idea. But if your retirement savings is shaky or nonexistent, keep the equity in your house and refinance for the fewest number of years possible.

■ BUDGETING TIP

You can sell your large home and move to a smaller one when you retire, paying cash for the smaller home and putting the difference into your retirement fund. See [Chapter 18](#) for more on saving for your retirement.

If you refinance your home for fifteen years when you're forty years old, you'll own your home free and clear when you're fifty-five. You'll realize two benefits: You can spend the ten years from fifty-five to sixty-five putting the amount of your previous house payment into retirement savings *and* you won't have house payments when you retire, which means you'll need less retirement income.

Qualifying for Refinancing

Whether you refinance with or without taking out some of the equity in your home, you want to make sure the refinancing meets the conditions in the following sections.

You Must Have Good Credit

Your credit rating is a reflection of how responsibly you've used credit and paid your bills over the years. If you're interested in refinancing your home but have poor—or even moderate—credit, you may want to wait a year or two while improving your credit rating. A poor credit rating is usually the result of the following, and it can be improved in the following ways:

- **High debt-to-income ratio.** Your new house payment should take up no more than 28 percent of your monthly income; your total financial obligations (mortgage payment, insurance, car and credit card payments, and utilities) should total no more than 36 percent of your monthly income. To improve your debt-to-income ratio, you'll need to pay off and/or reduce some of your financial

obligations or increase your income.

- **Late payments.** If you have a history of paying any of your bills—especially your mortgage payments—after they're due, you're likely to be denied a new mortgage. To deal with this problem, spend at least a year paying every single one of your bills early or on time, and then apply for a refinanced mortgage. In your application, include a letter stating your new commitment to cleaning up your poor payment history and explaining your diligence over the previous year.
- **Too much credit.** If you apply for every charge card or store credit card offer you receive, you may struggle in your refinancing plans. Having too much credit, even if you don't use it, worries lenders because, if you should choose to max those charge cards, you might have trouble making your mortgage payments. To compensate for this potential setback, immediately cancel all but two of your credit cards and store charge cards and don't apply for any new credit.

Under the Fair Credit Reporting Act, you're allowed to receive one free credit report every twelve months. Go to www.annualcreditreport.com or call (877) 322-8228.

You can also contact each of the three major credit bureaus individually: Experian, P.O. Box 2104, Allen, TX 75013 (www.experian.com); Equifax, P.O. Box 740241, Atlanta, GA 30374 (www.equifax.com); and Trans Union, P.O. Box 390, Springfield, PA 19064 (www.transunion.com). For between \$10 and \$20, these companies send you a copy of your credit report and credit score so that you can set about improving it, if necessary. (If you are ever denied credit, you can get a free copy of your credit report within sixty days of the application.)

Remember that credit reports can be wrong. To be sure, request a copy of your credit report every year or so and correct (in writing) any mistakes that you see.

Interest Rates and Closing Costs Should Be Low

Before considering any refinancing, make sure the interest rate is low enough to make the charges (which are usually lumped into what are called closing costs) associated with refinancing worthwhile. Worksheet

15-1 helps you determine how much money refinancing will save you (or cost you!)—you’ll need to use a loan calculator like the one at www.smartmoney.com (click on Tools, Real Estate, Should You Refinance?).

Worksheet 15-1: Financing and Closing Costs

Current mortgage amount (total owed)		\$
Closing costs (if added into loan amount)	+	\$
Total new mortgage amount	=	\$
Mortgage rate		\$
Approximate new monthly payment (from calculator)	=	\$
Monthly escrow	+	\$
Total new monthly payment	=	\$
Current monthly payment	-	\$
Monthly difference*	=	\$
Closing costs (if up-front payment is needed)		\$

*If this is a positive number, you’ll pay more for your new mortgage.

Escrow is an account that mortgage companies usually create for you when you have a lowdown-payment mortgage: One-twelfth of your annual homeowner’s insurance and property taxes is added to your mortgage payment. The mortgage company then pays your insurance and taxes from the escrow account when those payments are due. Putting your tax and insurance money into an escrow account may seem convenient, but it costs you money in the interest that you could be earning on that money throughout the year.

■ BUDGETING TIP

If you're refinancing, try to keep 20 to 25 percent equity so that you don't have to contribute to an escrow account. You don't want to continue paying escrow if you don't have to.

If you're currently paying escrow and have paid down 20 to 25 percent of your purchase price, ask your mortgage company to terminate your escrow account and send you a check for the balance. You can then deposit your insurance and tax payments into a savings account, out of which you pay those annual or semiannual costs yourself.

Understanding Home Equity Lines of Credit

Applying for a home equity line of credit is similar to—but much simpler than—refinancing your home. Instead of refinancing, which can include expensive closing costs, you simply apply for a line of credit against the equity in your home (see the preceding section for the lowdown on equity and how much is enough). A line of credit is like a loan, but instead of getting cash or a check from the lender, you get a checkbook to spend your equity on anything you want. If you write checks from that account (to yourself or anyone else), the line of credit is considered activated, and you must pay at least the minimum loan payment, an amount that repays the check(s) you've written in about ten years. The more checks you write, the higher your payment will be. Using the account also lowers your equity in your home until you pay the loan back.

The following sections help you determine the advantages and disadvantages associated with home equity lines of credit. In addition, Worksheet 15-2 helps you decide whether a home equity line of credit is right for you.

Advantage: You Can Pay Off Debts with a Lower-Rate Loan

Although home equity lines of credit carry an interest rate that's usually about two percentage points higher than your primary mortgage interest rate, if you use the line to pay-off high-interest credit card debt, you'll save a bundle.

■ BUDGETING TIP

Most lenders change their home equity line of credit interest rates daily or weekly. You might write a check when the interest rate is 6 percent and end up paying it off for several years at 8 or 10 percent. For this reason, plan to repay your line of credit as soon as possible after tapping it.

Advantage: Interest Is Probably Tax Deductible

The interest on your line of credit is usually tax deductible if you itemize—just like the interest on your mortgage payment is tax deductible. If you're paying less in taxes, you are, in a sense, lowering your interest rate even more.

Advantage: Applying Is a Cinch When You Buy or Refinance Your Home

If you're applying for a new mortgage or are refinancing, you can often apply for a home equity line of credit at the same time. This eliminates duplicating the loan-application paperwork and fees associated with applying for a loan (such as paying for your credit report).

Advantage: You Can Plan Ahead

If you know that your income is going to drop in the future, you can apply for a home equity line of credit long before this drop in income happens. Even though you won't be as good a credit risk after you reduce your income, you'll still have the home equity line of credit locked in and can use it if you need to.

Disadvantage: Annual Fees Can Be High

Some lenders charge annual fees of \$20 to \$150 for home equity lines of credit. Be sure to figure that amount into your calculations if you're planning to pay off a high-interest-rate debt with your home equity line of credit.

■ BUDGETING TIP

Some lenders offer periodic "sales" on annual fees for home equity lines of credit. If annual fees

Some lenders offer periodic sales on annual fees for home equity lines of credit. If annual fees are too high for you, ask whether the fees will ever be discounted, perhaps during a slow month for applications or when you open a checking or savings account with the lender.

Disadvantage: Two Mortgage Payments

If you're using a home equity line of credit to pay off existing high-interest debt (like credit cards), your monthly payment for the home equity line of credit will most likely be lower than for the high-interest debt, due to the lower interest rate and the relatively long life of the loan (usually ten years).

But if you're going to use the money to make improvements to your home or for any other new financial obligation, you'll have two monthly house payments instead of one, although the home equity line of credit payment is likely to be much lower than the payment for your primary mortgage. If you want to make only one payment, you'll have to refinance and take equity out of your home.

Disadvantage: You Must Have Enough Equity Available in Your Home

In order to get a home equity line of credit, you must have equity available in your home. After all, you're borrowing against the equity, and if you don't have much, you don't have anything to borrow against. Your home equity line of credit, then, will only be as large as your available equity, minus whatever down payment amount the lender expects you to maintain with them (and that can be as much as 25 percent—check with your lender).

Disadvantage: You Lower the Equity in Your Home

If you're planning to use your home as part of your retirement plan, using a home equity line of credit will reduce your ability to do that. The more you tap into your equity, the less you'll receive in cash when you sell your house.

Disadvantage: You Must Own Your Own Home

You must own (or have a mortgage on) your own home in order to qualify for a home equity line of credit. Even if you've been living in your grandmother's home for twenty years and have made all the

payments on it, if the house isn't in your name, you can't get a home equity line of credit. See an attorney if this is your situation.

Worksheet 15-2: Is a Home Equity Line of Credit Right for You?

If you can answer yes to seven or more of the following questions, a home equity line of credit may be right for you!	
You own your home (with or without a mortgage).	
You have enough equity in your house to tap for a home equity line of credit. (Equity equals the current value of your home minus the payoff on the mortgage.)	
The interest rate on the home equity line of credit is lower than the debt you'll pay off with the home equity line of credit.	
Your total monthly payments will be lower than your current monthly payments after you tap your home equity line of credit.	
You can afford both the home equity line of credit payment and your primary mortgage payment, along with your other debt.	
The annual home equity line of credit fees are \$50 per year or less.	
You itemize deductions on your tax return (that is, you fill out 1040 Schedule A).	
Your retirement account is well financed, so you don't need to pay off your house before you retire.	

Chapter 16

Saving for Vacations and Holidays

Vacations and gift-giving holidays have a nasty habit of blowing holes in budgets. After all, in the spirit of holiday giving, it's all too easy to overspend on presents and find oneself the day after with a nasty case of budget hangover. On vacations, we naturally want to relax and enjoy ourselves, so we are more willing to indulge in unexpected expenses and only feel the guilt later on.

In addition, vacations pretty much guarantee that we'll be eating out most of, if not all, the time, which is inevitably more expensive than home cooked meals. There are the added costs of hotels, airline or train tickets, extra gas for the car, museum tickets, theme park admission, and so on.

Both holidays and vacations can fit perfectly well into your budget. The trick, as with everything else I've discussed in this book, is *planning* and *saving*. We'll talk about saving first.

Take Cheaper Vacations

Back in the day, the family all piled into the station wagon or minivan and headed out for Disney World or some other resort. But rising gas prices have made this less and less possible. Those same gas prices have led to soaring airline ticket prices and a situation in which airline passengers pay for everything—from carry-on luggage to food to aisle seats.

Advertising on TV and in magazines may lead you to believe that the only way you can be a good spouse or parent is to take your family on a cruise, to Disney World, or to sunny vacation spots in the winter. Remember the source, though: These advertisements come from places that need you to visit in order for them to make money!

■ BUDGETING TIP

If you plan to take a vacation, be sure to estimate the taxes on hotel rooms, rental cars, and meals. In some areas, these taxes can total nearly 20 percent!

The truth is, though, that for a vacation to be great, all you need to do is get out of your current environment for a while, doing something fun and, perhaps, different. To save money on your vacation, for example, you can stay right in your own state, perhaps in an area you've never visited before. Plan to stay in an extended-stay hotel, which will usually have a kitchenette so you can cook your own meals and that offers discounts for stays of seven nights or more. If you already own camping equipment, consider going that route. Pack picnic lunches and look for free or low-cost attractions, such as museums, parks, zoos, and so on. Hiking is nearly always free and is a great way to find new adventures.

To save money on certain hotel rooms, get a copy of the discount coupon guides for the area you'll be visiting by going to www.hotelcoupons.com. These guides are also often available at rest stops and fast-food restaurants in the area. The coupons in these travel guides save you from 15 to 50 percent on room costs—making them even lower than standard Internet rates. Try comparison shopping at www.priceline.com. You can also find other hotel deals by searching the Net for “discount hotels” and the name of the geographic area you'll be visiting.

Remember that just because you're on vacation, you don't have a license to spend money that you would never dream of spending at home. To keep shopping extravaganzas to a limit, consider bringing traveler's checks or a check card (a debit card, but with a cap) for all your vacation expenses, including hotel, rental cars, and so on. Instead of putting your vacation on a credit card, use your traveler's checks or check card, which some banks offer free or at a reduced rate. You'll get nervous as you see them dwindle and won't be tempted to buy souvenirs or other unplanned items.

■ BUDGETING TIP

One alternative that many families are trying in place of tradition summer vacations is a “staycation.” This means that you stay home, saving on hotel and meal costs, but visit places near to you that you've never gone before. Be sure to look at the travel section of the newspaper

near to you that you've never gone before. Be sure to look at the travel section of the newspaper or check online for special events happening near you. A vacation doesn't have to mean traveling; really it's just an opportunity for you to relax and, if you've got a family, enjoy your time together.

Home for the Holidays

Holidays are another time of travel—expensive travel, since airfare and train tickets are more expensive to take advantage of the high volume of travelers. Even gas costs tend to rise at holiday time.

Surely it's preferable to avoid the stress of travel by staying home for the holidays. This doesn't have to be a permanent thing, but you can explain to friends and family that this year you're saving money for something that means a lot to you by skipping your usual round of holiday visits. If you can explain how much your dreams mean to you, your friends and relatives will understand.

Limit Presents

Instead of getting everything that's on everyone's holiday present list, limit everyone to one or two presents each—and make sure they're meaningful. Holidays aren't about stuff that we get; they're about sharing time together with one another. It may be hard to explain initially to the kids why they're not getting that new video game system or the latest in teen fashion accessories. But again, if you put it in the context of realizing a larger dream, they'll get it.

For holiday gatherings, rather than providing all the festive joy yourself, ask others to contribute. Potluck suppers speak of togetherness and sharing—things we associate with the holiday season.

Plan, Plan, Plan

The other aspect of holiday and vacation budgets is that they must be planned, and once you've set them, you must stick to them. Budgeting here is like any of the other exercises in this book. Worksheet 16-1 will help you itemize vacation expenses. Always include the number of people to whom each item will have to apply.

Item	Cost	Number of People
Airline tickets	\$	
Rail tickets	\$	
Gasoline	\$	
Hotel	\$	
Meals (x 3 per day)	\$	
Admission	\$	
Incidentals	\$	
TOTAL	\$	

Overestimate rather than underestimate. It's always better to have a bit more cash in hand at the end of your vacation than you thought you'd have. You can always put it aside for next year's vacation.

■ BUDGETING TIP

When traveling abroad, avoid exchanging money as much as possible. Virtually every time you exchange money for the local currency, you lose money. Either exchange all the money you'll need once, at the beginning of the trip, or use credit or debit cards to pay for expenses. Using debit cards is more and more an easy option as countries with a heavy tourist industry accept them.

Holiday/Vacation Funds

Although many people put their vacations or holidays on credit cards, this isn't the best option. Running up your credit cards makes it easy to overspend on your budget and saddles you with interest payments.

Instead, at the beginning of the year open a small savings account dedicated solely to your vacation or holiday fund. Set aside a little from each paycheck to put into it—carefully planning ahead to determine

how much you'll need to pay into the fund per check in order to have the money you need. Banks are generally happy to help you set up these sorts of accounts.

Chapter 17

Saving for College

Saving for college is on the lips and minds of nearly every parent in America. Although few people are actually able to save the total cost of tuition, fees, room, and board needed by college freshmen, the pressure of trying to do so is still stressful to parents. This chapter will help to reduce some of that stress.

Understanding College Costs

College costs can be a bit confusing; this section clears up what these costs are and what the average is today.

Tuition and Fees

This covers the salaries of professors, maintenance of buildings, use of the school medical clinic, and so on. Basically, it's the cost of being a student (whether a commuter or resident) on a campus. Enrolling in a private college (as of 2010), you should expect to pay somewhere around \$119,400 in tuition and fees over four years (approximately \$30,000 per year). At a public university for an in-state resident, the amount is substantially less—just \$33,300 (\$8,325 per year). However, these numbers are projected to continue rising. According to www.savingforcollege.com, the cost of private education by 2028 is expected to be a whopping \$340,800 for four years, while the cost of education at a public institution for in-state residents will rise to \$95,000 in the same time frame.

One alternative to private education that you should consider: Attend a community college for the first two years to fulfill all of your general education requirements. Then, for the last two years, when you'll be concentrating on your chosen area of study, transfer to a private school. Your degree will be from the private university, but you'll only have paid for two years of education there.

Room and Board

Room and board includes a place to live and food to eat. Prices for tiny dorm rooms are exorbitant—room and board tends to cost between \$9,000 and \$12,000 per school year. You can usually save a bundle by living off campus, particularly if you share a rental house with other students.

■ BUDGETING TIP

Sometimes, parents with a bit of extra cash will buy a house for their college kids. The kids living there split the cost of the mortgage payment, taxes, and insurance (and often pay the same price they would if renting), and the parents sell the house when the kids graduate. If you've got the money, it's really not a bad idea.

Books

College textbooks are expensive—textbooks can cost over \$150 *each*. The average bill for books for a school year is about \$1,100. As much as possible, look for used textbooks, either online or in student exchange co-ops, usually located near campus. However, don't buy a textbook that's clearly out of date or that the teacher recommends against.

Study Abroad

Many college students try to take one semester or year and study abroad. Expenses vary by the student and the location, but this cost generally includes airfare to and from the location; tuition at the foreign school; and spending money at the location. However, when attending a very expensive university (such as Harvard, MIT, Notre Dame, and so on), studying abroad may actually cost *less*, even factoring in the increased travel costs.

Internships

Internships are becoming more and more vital to graduating college seniors. If you're able to work in your field of interest before graduation, you'll have a much easier time finding work in your field. Many students live at home while interning during summers; those who can't live at

home will need to pay for an apartment during the internship period.

Transportation

Some freshman aren't allowed to have cars on campus, but if a student is to have any flexibility at all, taking a car to school—even an old clunker—is a good idea. You will, however, have to include estimates for gas, maintenance, insurance, excise or personal property taxes, and license. Transportation costs vary widely based on the cost of gas, but you can estimate about \$1,000 per year for on-campus students and about \$1,500 for commuters.

Miscellaneous Expenses

Miscellaneous expenses range from music downloads to late-night pizzas. They generally run around \$1,500 per year, for a student on a budget.

Determining How Much You Can (or Want to) Help Out

This isn't a subject that many people talk about, but at some point, you need to make a decision about how much you can or want to help your child pay for college. Paying for all of a child's college expenses is out of reach for many parents, and if you do so, it may make your child less able to appreciate the gift that attending college really is. A child who really wants to attend college will find a way, either by working part time, winning scholarships, or taking out loans.

■ BUDGETING TIP

Just as you can support your child financially, you can also support your child by visiting, calling, texting, sending e-mails, sending care packages, and so on. College can be quite lonely, especially during the first semester, and your emotional support will surely help.

Don't assume that you and your spouse or partner feel the same way about whether to pay your kid's college expenses. While you want to try to come to a consensus, agreeing to disagree is okay, too.

Also be sure to include your growing child in this conversation. Kids who expect to pay for all or part of college will be better equipped to deal with finding money than will kids who assume money is available and then are told later that full support is not available.

Seeing How Much You Can Save

How much you can save for your child depends on three factors: How much you're able to invest; how long you have; and how much you can earn in interest. In general, investing a small amount each month for eighteen years will yield greater savings than investing larger amounts for four or five years. Table 17-1 gives some examples of what you'd save if you put money for college in a tax-free or tax-deferred account.

To find out how much you can save for your child's college fund, visit the FinAid site at www.finaid.org and click on their Calculators section. You can play around with the numbers and determine how much you can save over time.

Table 17-1: Saving for College

Monthly Deposit	Interest Rate	Number of Years	Total Savings
\$25	5%	18	\$8,766.43
\$25	5%	5	\$1,707.24
\$165	5%	18	\$57,858.41
\$165	2%	18	\$42,928.53
\$165	9%	18	\$89,161.77

Monthly Deposit	Interest Rate	Number of Years	Total Savings
\$500	5%	3	\$19,457.41
\$500	5%	18	\$175,328.52

Taking Advantage of Government-Sponsored Savings Plans

If you have eighteen years to save for college, chances are you'll end up with quite a bit of money for your child. But even if you don't have that much time, three tax-free college savings vehicles can help you save for your child's college expenses. Between the grants that are available to

students and the tax savings you can realize, the government can actually be a big help to you and your child.

Coverdell Education Savings Accounts

Although renamed the Coverdell Education Savings Accounts (ESA) several years ago, these are still often called by their old name: Education IRAs. These accounts allow you to contribute \$2,000 per year, tax free to the recipient, for college. The withdrawals are tax free, too. The account is in the name of the child (called the beneficiary), and nearly anyone can contribute to it tax free, including grandparents, godparents, aunts and uncles, and you, up to the maximum amount each year; contributing more than the maximum amount, even from several different sources, can result in penalties.

The money in Coverdell accounts can be used not only for college tuition, fees, room, board, and books, but also for an education-related computer, academic tutoring, and transportation to and from school. The money can also be used for K–12 expenses, including private-school tuition. If the funds aren't used for education, the account remains in the name of the beneficiary—it doesn't revert back to you or the other donors, and this might really grind your gears.

There's only one catch, really: The funds must be used within a month of your child turning thirty years old. If money were ever left in a Coverdell account and your child turned thirty plus a month, he or she could start another account in the name of another child. This does mean, however, that Coverdell accounts aren't very useful for older adults who want to return to college.

There are contribution limits to Coverdell accounts for tax payers based on the contributor's modified adjusted gross income. These limits, for 2011 tax filers, begin to phase out at \$95,000 in income for individuals and \$190,000 for couples. That's a lot of income, yes, and probably doesn't apply to you, but if other family members or friends want to contribute to your child's Coverdell account, they should be aware that there are income limits on who can contribute.

Okay, there's kind of another catch, too. The financial institution that holds your Coverdell account will charge the account a maintenance fee for managing the investment account. The fee is usually small, however.

529s: College Savings Plans

Nearly all U.S. states currently sponsor college savings investment plans. Although there's no federal tax benefit, many states give a tax break when you contribute to the plan.

The fact that states sponsor the plans (and may give state income-tax breaks on the deposits) leads some people to believe that your child has to attend an in-state public university in order to use the funds. Only state-sponsored prepaid-tuition plans have that requirement (see the following section); funds in 529 college savings plans can be used at any college or university in the country.

■ BUDGETING TIP

To get information about your state's college savings plan, go to the Saving for College website at www.savingforcollege.com. It lists every 529 savings plan administered in the country and then reviews information about the plan's manager and its investment rating.

Basically, the plans operate very much like a Coverdell ESA, except that instead of the money being owned and controlled by the child, 529s are owned and controlled by the parent. Your child is still the named beneficiary, but he or she has no legal right to the money if you choose not to authorize a withdrawal. And you can change the named beneficiary at any time. Anyone can contribute to the 529 fund.

Another striking difference between a Coverdell ESA and a 529 is that the total amount you can contribute to a 529 is virtually limitless, though they do take into account "the amount necessary to provide for the qualified education expenses of the beneficiary," and gift tax consequences may be triggered for contributions exceeding \$13,000 in a given year. But, the plan doesn't stop at age thirty, so you can establish one for yourself to earn your first degree or attend graduate school.

■ BUDGETING TIP

The tax implications of 529s are not easy to understand. If you're already using the services of a tax accountant, be sure to discuss your college savings plan, too. If not, consider hiring a qualified tax accountant to help you wade through the many regulations covering these plans.

qualified tax accountant to help you wade through the many regulations covering these plans.

The account is placed in the hands of an investment-fund manager who charges a maintenance fee, and you can establish direct-deposit funds into the account, making deposits to the plan simple and relatively painless.

Another Kind of 529: Prepaid Tuition Plans

A prepaid-tuition plan allows you to buy tuition shares or units and then hold on to those shares until your child wants to use them. Buying a share is just like paying tuition, but at today's prices. You lock in at today's tuition rates, thus avoiding the dreaded annual increase in tuition. Family members and friends can buy shares for your child, too, but some states require contracts that lock you in to buying a certain number of shares in a given period of time.

■ BUDGETING TIP

When your child receives the prepaid-tuition shares to use to pay for college, the federal government usually taxes them as income. Since your child has a low tax rate, it may still result in tax savings. States don't usually tax prepaid-tuition shares.

The plans vary greatly in where and how they can be used. Some colleges and universities sell tuition shares directly, but they can be used only at that school. In other cases, states sell the shares, and they can be used at any public—and sometimes private—college in that state. Some blocks of schools (like a group of private schools) sell the shares. If your child decides not to attend that college or isn't accepted at one, you may be eligible for a refund of the tuition shares, but often a penalty is levied. If you purchased the shares directly from the college or university, you may be able to sell them to another family to use.

Finding Other Ways to Pay for College

The tax-free savings plans discussed in the preceding section are great if you have a few thousand dollars a year to invest for your child. If you're not able to squeeze that much out of your budget, however, consider the

following ways to help your child pay for college.

A Fifteen-Year Home Mortgage

One creative way to pay for college if you don't currently have the money to do so is to buy a house (or refinance an existing house) on a fifteen-year mortgage when your child is born. When you pay off the house fifteen years later, begin putting that "mortgage payment" into a savings account or low-risk investment fund.

The account will have thirty-six "mortgage payments" in it by the time the child is ready for college—an amount that, depending on your mortgage payment, could be substantial. At 5 percent interest, a \$1,000-per-month "mortgage payment" into your savings account will yield \$38,914.81 in three years. You can then continue using what was mortgage money for college money throughout your child's four or five years at college.

Scholarships and Grants

Scholarships range from athletic grants to academic scholarships to money that's based on geography or heritage. Peruse the many money-for-college books at your local library, and encourage your child to apply for any and every scholarship that looks appropriate.

The majority of academic scholarships now offered to college-bound seniors are based on scores received on the PSAT, SAT or ACT. (Some states, such as Illinois, require all students to take the ACT as a graduation requirement, so many students take only the ACT. More and more colleges and universities accept either ACT or SAT scores.) Because only the best scores are reported, encourage your child to take the test early and often, perhaps even investing in a study course. While the tests and study courses do cost money, they could add up to tens of thousands of dollars in scholarships if your child scores among the top students in the country. Some colleges even offer free tuition and fees for students who score a perfect or nearly perfect mark.

For more information about scholarships and grants check out the following websites:

www.collegescholarships.org

www.fastweb.com

www.scholarships.com

■ BUDGETING TIP

To become eligible for any government grants or loans, your child must complete a Free Application for Federal Student Aid (FAFSA). This form can be time consuming to complete and may include information that you would rather keep private. Still, no government grants or loans are given unless this form is on file. For help and further information on this, go to www.fasa.ed.gov.

The most well-known college grant is the federal Pell Grant, which gives money (up to \$5,550 for 2012–2013) directly to low-income students attending college. It does not have to be repaid and is available only to undergraduates earning their first degree. Federal Supplemental Educational Opportunity Grants, which range from \$100–\$4,000, may also be available to low-income students.

Loans

Loans are different from scholarships and grants in that they must be repaid after the student graduates from or stops attending college. Federal student loans are usually borrowed directly from the government or from qualifying private lenders—both offer an attractively low interest rate. Many families, even those that do not appear to demonstrate much of a need, are eligible for federal student loans.

Federal Perkins Loans are borrowed directly from the school (also at a low interest rate), but are available only for low-income students. You can borrow up to \$5,550 per year for undergraduate study. Direct Loan Program loans are administered by the U.S. Department of Education as either Stafford Loans or PLUS loans. Stafford Loans are available directly to students and may or may not be based on need. Total loans vary from \$5,500 per year to \$7,500 per year for (dependent) undergrads. PLUS loans are available to the parents of college-bound students, but instead of being due when the child graduates, they must be repaid while the child is still in school. For loan program name updates, go to www.studentaid.ed.gov/PORTALSWebApp/students/english/studentloansupdc

For loan amount limits, look at www.studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp.

Student loans are often helpful in paying for college, but they can also present significant risk. The total amount owed by students on these loans has grown substantially during the past several years to the point where it is exciting much national comment. Unlike many other kinds of debt, student loans cannot be discharged through bankruptcy. Many students and parents find themselves paying on these loans year after year, long after the student has graduated. For a discussion of the advantages and disadvantages of student loans, see Bonnie Kerrigan Snyder's, *The New College Reality* (Adams Media, 2012).

Work Study and Other Jobs

A lot of students work while in college, and not only does working often not hurt the student's chances of succeeding, it can actually improve his or her chances of being hired after college! Working forces students to be disciplined, and also may provide real-life experience (especially when doing a co-op or internship) that can make a resume shine.

■ BUDGETING TIP

The FedMoney site (www.fedmoney.org) lists dozens of government programs that give students money for college. If you've been thinking that you can't afford college, visit this site before you give up! There are other sites, too: Search online, using the phrase "college scholarships."

Here are some broad categories of work opportunities for your child:

- **Work study.** Federal work-study programs allow students with financial need to be employed, usually by the university or surrounding community, for a certain number of hours per week. This option is considered part of a student's financial aid package, along with grants and loans.
- **Part-time job.** A student can apply for a job at the bagel shop or as a professor's assistant and is usually paid minimum wage.
- **Full-time job.** Your child can opt to work full time and attend

school part time. Although the full-time job usually isn't professional work, the company may offer some tuition assistance or a flexible work schedule built around class schedules. Most students take six to ten years to finish a degree while working full time.

- **Co-operative education.** A college co-op education alternates semesters of full-time college attendance with semesters of full-time work in the student's field of interest. The semesters of work usually pay quite well—sometimes enough to pay all of the student's college expenses, plus living expenses during the work semesters. Co-op positions are difficult to get, and they're demanding because the student must behave professionally during the work semesters and must take full course loads while at school. Most co-op students graduate in five years. Because of their real-life experiences, however, students who co-op are usually the first ones hired upon graduation.
- **Internship.** An internship is similar to a co-op, except that students usually attend their eight semesters of school like other students, interning only during summers and other school breaks. Unfortunately, some internships pay poorly or not at all, but they do provide necessary real-world job experience.

Create a Budget That Includes College Expenses

In order to begin saving for your child's (or your own) college expenses—whether you have eighteen years or eighteen months—you'll need to sharpen your pencil and rework your budget. First, look at your budget to see how much you might be able to pull together each month by reducing your expenses. Then visit www.finaid.org to determine how much you'll be able to save.

Worksheet 17-2: A Child-in-College Budget

Monthly Expense	Amount	Ways to Reduce/Eliminate	New Amount
College costs	\$	N/A	\$
Groceries and household	\$		\$

items			
Day care	\$		\$
Contributions	\$		\$
Savings	\$		\$
Rent on furniture or appliances	\$		\$
Entertainment/baby-sitting	\$		\$
Eating out	\$		\$
Rent or mortgage	\$		\$
Car payment or lease	\$		\$
Electric bill (average)	\$		\$
Gas bill (average)	\$		\$
Water bill	\$		\$
Sewer bill	\$		\$
Trash pickup bill	\$		\$
Cable/DSL/satellite bill	\$		\$
Telephone bill	\$		\$
Cell phone bill	\$		\$
Bank charges	\$		\$
Haircuts/manicures/pedicures	\$		\$

Home equity loan	\$		\$
Other loan	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Child support or alimony	\$		\$
Car maintenance	\$		\$
House maintenance	\$		\$
Auto insurance	\$		\$
Property taxes	\$		\$
Gifts	\$		\$
Events to attend	\$		\$
Clothing and shoes	\$		\$

Home insurance	\$		\$
Vehicle registration	\$		\$
Vacation	\$		\$
Club membership	\$		\$
Other:	\$		\$
Other:	\$		\$
TOTAL:			\$

Another way to determine your savings is to ignore the fact that you'll be earning interest on your money, and just multiply your monthly contribution by the number of months you have between now and the time your child will start college. Compare that number to today's tuition, fees, room, and board, and you'll have a good idea of how much college your savings will buy. The reason this method works fairly well is that college costs are rising by about the same amount that most investments are yielding.

If you're not satisfied with your potential savings, see if you can find extra money in your budget (by cutting back even further on your expenses), and then calculate how much you'll have saved by putting away that amount (see Worksheet 17-2).

Chapter 18

Saving for Retirement

How much do I need to retire?

This is the million-dollar question: How much money will you need in retirement? Unfortunately, there is no set answer. How much you'll need depends on your expenses during your retirement years as well as what you want to do during those years. This, in turn, is bound up with the long-term goals you set at the beginning of this book.

If you will no longer have a house payment or rent in retirement, you may be able to live on a lot less than if you continue to make those payments. On the other hand, if you live in an older house in retirement, you may also encounter more repairs than someone in a new condo. In the same way, you may want to belong to a country club in retirement, but get rid of your expensive car. So, how much you need depends on your individual circumstances.

■ BUDGETING TIP

No one has the ability to look into a crystal ball and know exactly what your expenses will be. The best you can do is estimate, make adjustments, estimate a little more closely, make more adjustments, and on and on!

Use Worksheet 18-1 as a way to begin to determine what your expenses will be during your retirement years. Think of how you live your life now, what will likely change in retirement, and what will be paid off before you retire. (Hint: Don't worry so much about what the actual costs might be down the road; just write in what those costs would be in today's dollars, to give you a handle on how your expenses will increase or decrease in retirement.)

Worksheet 18-1: Retirement Expenses

Monthly Expense	Amount
-----------------	--------

Groceries and household items	\$
Contributions	\$
Savings	\$
Rent on furniture or appliances	\$
Entertainment	\$
Eating out	\$
Rent or mortgage	\$
Car payment or lease	\$
Electric bill (average)	\$
Gas bill (average)	\$
Sewer bill	\$
Water bill	\$
Trash pickup bill	\$
Cable/DSL/satellite bill	\$
Telephone bill	\$
Cell phone bill	\$
Bank charges	\$
Haircuts/manicures/pedicures	\$
Home equity loan	\$
Other loan	\$

Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Credit card or store-charge card bill	\$
Child support or alimony	\$
Car maintenance	\$
House maintenance	\$
Auto insurance	\$
Property taxes	\$
Gifts	\$
Events to attend	\$
Clothing and shoes	\$
Home insurance	\$
Vehicle registration	\$
Vacation	\$
Club membership	\$
Club membership	\$
Club membership	\$

TOTAL:	\$
Other:	\$
Other:	\$

Finding Ways to Set Money Aside Now

The main reason people put off saving for retirement is that they think they have plenty of time to do that later. The second most popular reason for putting it off is that most people don't know how to come up with money to put into savings. If you've read any of the chapters in the first third of this book, though, you can probably come up with a variety of ways to find \$50, \$100, or \$200 a month for retirement savings. Use Worksheet 18-2 to brainstorm ideas, and review the following sections for some creative ways to save more for retirement.

Worksheet 18-2: Ideas for Reducing Your Current Expenses

Expense	Idea for Reducing or Eliminating	Potential Monthly Savings
		\$
		\$
		\$
		\$
		\$
		\$
		\$

Here are some ideas to save money, money that you can put aside for retirement.

Stop Eating Out

If you eat takeout twice a week, and you pay \$12 for a meal that you could make for \$3.50 at home, you could put about \$74 a month into your retirement savings. Over twenty years at 5 percent, that's \$18,564.

Cut Your Clothing and Shoe Budget in Half

If you spend \$1,000 per year on clothing and shoes, can you cut that amount in half and put \$500 a year (\$42 per month) into a retirement account? Thirty years of that, at 6 percent, and you'll have \$42,189.63 toward your retirement fund.

Move to a Smaller House

If you're currently living with two other people in 2,400 square feet, could you move to a house with 1,800 square feet and still be comfortable? If so, your mortgage payments might go down by anywhere from \$300 to \$1,000 per month—money that you could put into a retirement fund. In just fifteen years at 6 percent, a \$600-per-month savings will equal a whopping \$157,382.85.

Drive Your Car Twice as Long

If you currently get a new car every three years, pay it off, and get another new one, try something different: Pay off your car in three years but drive it for six. Put the amount of your car payment into a retirement account for the second three years. You'll only contribute to your retirement account three years out of every six, but you'll have found a creative way to save.

■ BUDGETING TIP

Another way to get more money for retirement is to refinance your mortgage when interest rates decline. (I talked about this earlier in [Chapter 14](#).) For the cost of closing the loan, you might be able to find an extra \$50–\$150 per month for your retirement savings. Just don't increase the length of the loan, though, or you'll sacrifice your long-term financial health.

Start a Part-Time Business

Instead of looking only at potential expenses to cut, consider working a few extra hours per week, perhaps at your own business, and putting that income toward your retirement savings.

Looking at Tax-Deferred Ways to Save

When most people think of retirement and the government at the same time, they think of Social Security, the government program that collects money from you throughout your working life and gives it back to you, one month at a time, during your retirement years.

If you're nearing retirement, you can probably count on quite a bit of Social Security income for your retirement. If you haven't already, you will soon receive a statement that explains how much you'll receive each month, based on exactly what age you retire. You can also contact the Social Security office at www.ssa.gov or (800) 772-1213.

If you're forty or younger, however, there's isn't much chance that Social Security will fully fund your retirement. That's because instead of taking income from you, investing that income, charging a small administrative fee, and then paying you benefits from the investment, as you may have expected the federal government to do, the system actually works quite differently. The money you paid in isn't there anymore: What you paid in ten years ago was used to pay benefits to other people ten years ago; what you paid in last week was used to pay benefits to other people last week. That worked pretty well when the largest generation in American history (the baby boomers) was working, but as boomers enter retirement, the government will probably not be able to collect enough in Social Security income to offset the benefits being paid to them.

As a result, the government has taken two steps: increasing the age at which you can begin to draw Social Security benefits; and encouraging you to invest more money in your own retirement accounts to use when you retire. The following sections give you some examples of how they hope to encourage you to do that.

As you investigate all of your options, use Worksheet 18-3 to keep track of what's available to you and how much you're legally allowed to contribute.

Worksheet 18-3: Possible Retirement Savings

Type of Account	Possible Contribution	Employer Matching Amount
		\$
		\$
		\$
		\$
		\$
		\$
		\$
		\$
		\$

Starting Young

The absolute best way to save for retirement is to start young. If you start saving \$100 per month when you're twenty-five, and you invest that in a mutual fund or other stock-related fund that sometimes earns 18 percent interest and sometimes loses money, averaging 8 percent over the next forty years, you'll have \$351,428.13 for retirement. To get the same amount of retirement savings if you start at age forty, you'll have to put away about \$367 per month. Use the Savings Growth Projector calculator at www.finaid.org to run these numbers for yourself.

Making Up for Lost Time

Regardless of how old you are, you can still save some money for your retirement, thanks to the government's catch-up provision, which allows you to save more money in a retirement account when you're fifty or older than when you were younger. You may also be able to use the

equity you've built up in your house to fund part of your retirement. The following two sections share some details about each option.

Using the Catch-Up Provision

If you're fifty or older, you're allowed to put away more tax-free income per year than your younger counterparts. For example, while the standard contribution to both traditional and Roth IRAs is \$5,000 per year (subject to income limits, of course), anyone fifty or older can contribute \$1,000 more than that. Your company's 401(k) plan has similar provisions, allowing you to contribute more than younger workers. This is called a catch-up provision, and it's meant specifically for people who started saving for retirement later in life.

Using Your House to Help You Retire

If you haven't made many provisions for your retirement and can't seem to find the money to do so, you may be able to tap the value of your house for your retirement. Suppose you're forty-five years old and have fifteen years left to pay on your house. You bought the house fifteen years ago, and home prices have risen significantly since then. Your house is worth \$240,000 now and will likely be worth over \$450,000 when you turn sixty and the house is paid off.

Rather than staying in the house during retirement, you can sell it and move to a smaller house or condominium that costs far less. If you can sell your house for \$450,000 and buy a condo at that time for \$300,000 or \$350,000, you'll have \$100,000 to \$150,000 to add to your retirement account.

■ BUDGETING TIP

If mortgage interest rates drop to one point or lower than the rate on your current mortgage, consider refinancing. You may be able to get a shorter loan length (say, fifteen years instead of thirty) for the same monthly payments. This can enhance your ability to use your house as part of your retirement plan.

On the other hand, you can stay in the house and get a reverse mortgage on it as soon as you begin needing income (say, when you turn

sixty-five or seventy). Essentially, a bank buys the house back from you, except that you continue to own it and live in it. You must be at least sixty-two and own the house free and clear. The bank then either sends you monthly payments or gives you a lump sum. You'll pay a fee for this service because if you live longer than the bank thinks you're going to live, they may actually lose money on the deal. Still, many lenders offer this option.

Chapter 19

How to Survive Unemployment

Up to this point, I've been talking about planning as the most essential part of the budgeting process. Planning means you have a much greater chance of realizing your long-term goals, the dreams that motivate you to stick to your budget.

However, if there's anything the Great Recession taught us, it's to expect the unexpected. Over the course of 2008–09 millions of people lost their jobs, the housing bubble burst, industries collapsed, and the U.S. economy, which had been riding high for twenty years, seemed to be on life support. It's easy to think that under such circumstances all individual budgeting goes out the window. However, nothing could be further from the truth. It's at times of financial stress and strain that budgeting becomes *more* important, not less.

Losing your job may be the toughest financial blow you'll ever have to take, yet people do survive unemployment; in fact, they often emerge on firmer financial footing (because they've quickly learned to budget and cut back) and with greater confidence in their abilities.

Sorting Out Severance Packages and Unemployment Insurance

Your first step should be to assess how much money you may still have coming in—usually from two sources: severance pay (a lump-sum check from your employer) and unemployment insurance.

Many companies don't offer severance packages, so it's certainly not guaranteed. If the company is laying off employees because it is having financial difficulties, you probably won't be offered any severance pay, but you may be offered a severance package that might include job-placement assistance, continued use of an office so that you still appear to be employed, and freelance opportunities to finish projects that you've been working on. This assistance is not common, however.

If you are offered severance pay, the amount will most likely be based on how long you've worked for the company: a month's pay for every two years worked, for example. If you're offered this pay—six months' worth of income, say—immediately put it away in a safe, interest-bearing account so that it will last you six months (or, perhaps, even longer). If you're not offered any severance, or if the severance pay is so paltry that it runs out before you've even had your resume printed, you're not alone. Sadly, few companies offer this assistance—those that do are usually companies that have recently merged (and, therefore, have a lot of cash) and have laid off a small part of their staff.

■ BUDGETING TIP

If you were fired from your job because of misconduct, unemployment insurance and COBRA-defined coverage will probably not be available to you. These benefits are meant to assist employees who lose their jobs through no fault of their own.

You're far more likely to receive unemployment benefits, however. The moment you hear you've been laid off, call your state's unemployment-insurance agency (you'll find the number in the blue pages or government section of any phone book). While you may have to visit the unemployment office, some states allow you to file a claim by phone or online.

The amount of your unemployment insurance and the length of time you'll receive it is based on how long you've been employed, the state you live in, and the general economic conditions in your area. (In times of severe economic downturn, unemployment benefits are often extended for many more weeks than in relatively healthy economic periods.) Your state's unemployment office will know how many weeks you're eligible for and whether you have any chance of having those benefits extended.

As soon as you find another job, your unemployment benefits will stop. Some states, however, have a self-employment assistance plan that encourages you to start your own business. You receive the same benefits as you would if you were looking for work, but instead of sending out resumes and going on interviews, you're spending your time

getting your business started. Ask your state whether a self-employment assistance program is available to you.

Locking In Your COBRA-Defined Coverage

The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 was designed to help employees who leave their jobs and are, as a result, without health-insurance coverage. If your former employer had twenty or more employees, COBRA allows you to continue health insurance coverage for up to eighteen months after leaving your company. The fine print? Well, it's a doozy. You have to pay the entire cost of your insurance—the portion you paid before (it was probably deducted from your salary) *and* the portion your employer paid on your behalf, which may have run several hundred dollars per month. (Your former employer is also allowed to charge you a 2% administration fee.) The coverage you receive—including deductibles and limits on coverage—should be identical to the coverage you had as an employee.

When you're laid off, you should receive information about continuing your health-insurance coverage under COBRA. If you don't receive it, ask for it! You usually have sixty days to elect to continue your coverage (and when you sign up, the coverage is retroactive to your last day on the job) and pay the first payment. If you fail to make the payments, which are usually due monthly, the coverage will be terminated.

Before deciding whether to accept COBRA coverage, call around or search on the Internet for short-term health-care coverage. If you're willing to go with a high-deductible plan (which means that you don't get any benefits until your medical expenses total a ridiculous amount, but you're covered up to a few million dollars if a catastrophe occurs), you may be able to pay hundreds less per month for insurance and still have coverage if a catastrophe occurs. Many conditions, including pre-existing ones and pregnancy, aren't covered (or aren't covered until a year after the policy begins), and a few of these policies can't be renewed after they expire (usually in six to nine months). COBRA's biggest benefit could be that even though it expires eighteen months after you sign on, if you still haven't found work, you're eligible for insurance policies that aren't allowed to exclude pre-existing conditions.

■ BUDGETING TIP

It's no small irony that when you can least afford to pay the entire portion of your health-insurance costs, you have to, in order to continue your coverage. However, if you're tempted to just go without insurance, don't! Doing so may turn a bad financial situation into a catastrophic one.

Seeing to Your Other Insurance Needs

If you're able to lock-in COBRA insurance for the next eighteen months, you have one major insurance need taken care of, even if it is frighteningly expensive. But you want to think about your other insurance coverage as well, especially insurance that may have been covered by your employer and insurance that you may be tempted to let lapse while you're unemployed.

Employer-Sponsored Insurance

Your employer may have paid for life, disability, dental, and vision insurance, in addition to health-insurance coverage. Of these, life insurance is the one that's most important to secure while you're unemployed.

Some people think of life insurance as a way to leave great wealth to their children or spouse upon their death, but for most people, life insurance is simply a way to help your family pay for funeral costs and get through a year or so without your income. Many people, therefore, buy enough coverage to pay funeral expenses, pay off the mortgage, and pay for one or two months of income or unemployment benefits. Funeral expenses vary by area—call your local funeral home for an estimate.

You can find out your mortgage balance by calling your mortgage lender and asking for the payoff amount. Use Worksheet 19-1 to see how large your life-insurance policy should be.

Worksheet 19-1: Amount of Life Insurance Needed

Funeral expenses:	\$
Mortgage payoff:	\$

Monthly income or unemployment benefits:	\$
Other amount needed:	\$

Insurance You've Been Paying For

Your employer has probably had nothing to do with your homeowner's or apartment insurance and car insurance. When you're unemployed, you want to keep those insurance policies intact, although this is a good time to shop around for a better price and, if necessary, higher deductibles.

Most states won't allow you to let your auto insurance lapse (they'll eventually take away your license plates), and most lenders won't allow you to let your homeowner's insurance lapse (they'll cancel the mortgage and force you to sell your house). Although this may seem intrusive on their part, consider what would happen if you had a fire in your house and didn't carry insurance. The mortgage company wouldn't have a house to sell in order to recoup their loan, so they would make you pay that loan in full immediately. Don't let unemployment go from bad to worse by not maintaining some insurance coverage for your house and car.

■ BUDGETING TIP

You may also have had a retirement plan at your company. For now, don't feel that you need to do anything with this plan, unless you think your company might be in danger of declaring bankruptcy. Otherwise, let it sit until you've had a chance to figure out your next move.

Paring Your Expenses Down to the Bone

Now that you have a sense of what your income might be for the next few weeks and have discovered the cost of paying for your insurance policies, you can create a bare-bones budget that you'll live on until you find your next job.

Your next step is to eliminate every single unnecessary expense so that, even with the increase in health-insurance payments (and, potentially, other insurance premiums, too), you can make your unemployment insurance (plus any savings you may have) last as long as possible.

This is your time to experience living like a monk. Unless you can show directly how spending money will get you another job, put away your credit cards and begin a period of absolutely no discretionary spending. [Chapter 9](#) can help you both with the concept of freezing your spending and with reviewing the information that you'll need for Worksheet 19-2. Try to see how many of the categories in this worksheet can total zero dollars.

Looking for a Job As Soon As Possible

If your company offers job-hunting assistance, use it, even if it's not the greatest service or assistance available. If nothing else, beginning your job hunt the day after you are laid off doesn't give you much time to worry or get too angry. Both emotions are, of course, perfectly normal reactions to losing your job, but both can also paralyze you. Take the time you need, but if you find yourself unable to get out of bed or unwilling to get off the couch, you may be letting your emotions keep you from getting that next interview.

Looking for a job—especially if you use an office or other location (away from your home) that's been set up for you—gets you out of the house, dressed professionally, and ready to look for your next course in life. In fact, that's often the best approach when job hunting: Treat your job search as though it's your full-time job. Use any facilities your company has provided for you, which may include office space with a telephone, copy machine, computer and printer, resume consultation service, and so on.

BUDGETING TIP

If you don't have a top-notch resume and don't have access to any free services that offer resume assistance, take a trip to your local library to review its books on resumes and cover letters, especially those that discuss the best ways to submit them electronically.

If, on the other hand, you aren't offered any job-searching assistance from your company, you can use the same ideas to find your next job. If you need to get out of the house while searching the Internet or newspapers, visit your local library or the FedEx Office copy center in your area. When you do go out, dress professionally and set goals for the day, such as, "I'll find and follow up on three leads today."

Worksheet 19-2: A Bare-Bones Budget

Monthly Expense	Amount	Ways to Reduce	New Amount
Groceries and household items	\$		\$
Day care	\$		\$
Contributions	\$		\$
Savings	\$		\$
Rent on furniture or appliances	\$		\$
Entertainment/baby-sitting	\$		\$
Eating out	\$		\$
Rent or mortgage	\$		\$
Car payment or lease	\$		\$
Electric bill (average)	\$		\$
Gas bill (average)	\$		\$
Water bill	\$		\$
Sewer bill	\$		\$
Trash pickup bill	\$		\$
Cable/DSL/satellite bill	\$		\$

Telephone bill	\$		\$
Cell phone bill	\$		\$
Bank charges	\$		\$
Haircuts/manicures/pedicures	\$		\$
Home equity loan	\$		\$
Other loan	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Credit card or store-charge card bill	\$		\$
Child support or alimony	\$		\$

Monthly Expense	Amount	Ways to Reduce	New Amount
Car maintenance	\$		\$
House maintenance	\$		\$
Auto insurance	\$		\$
Property taxes	\$		\$
Gifts	\$		\$
Events to attend	\$		\$
Clothing and shoes	\$		\$
Home insurance	\$		\$
Vehicle registration	\$		\$
Vacation	\$		\$
Club membership	\$		\$
Club membership	\$		\$
Club membership	\$		\$
Other:	\$		\$
Other:	\$		\$
TOTAL:			\$

When searching online, search first for job-listing services that are specific to your industry. For more general searches, go to CareerJournal (www.careerjournal.com), Monster.com (www.monster.com), CareerBuilder (www.careerbuilder.com), and craigslist (www.craigslist.org), and then

choose your city). Also, don't forget the classified ads in and website for your local paper.

■ BUDGETING TIP

Never pass up the opportunity to network! Although you may prefer that people not know you've lost your job, the people you run into at the coffee house, your daughter's basketball game, or a social gathering with your spouse may be able to help you find your next job.

Starting a Consulting Firm or Small Business

Many laid-off or downsized employees use their misfortune to springboard into a career they've always wanted, as a consultant or small business owner. There are, however, some important points to consider.

Wait to Pursue Big-Business Dreams

If your plans for a business are large in scope—say, you want to open a retail store or open a large consulting firm—being unemployed may not be the best time to establish your business. For a large business that's going to have a lot of overhead (rent, inventory, equipment), you're going to need money, either from a lender or from investors. Unless you received a large severance package or have plenty of money in savings that you could give up as collateral (a guarantee for the lender), you're probably not going to qualify for an influx of cash from a lender or investor while your future is so uncertain. That doesn't mean your big-business plans are impossible, but you'll have a better chance of success if you keep your plans small.

Keep Your Plans Small

Concentrate your self-employment plans on the lowest-overhead business that appeals to you. Plan, for now, to be the only employee (or work with a few other self-employed professionals who also have their own businesses), so that you can eliminate complicated withholding taxes and paperwork and can work out of any spare space in your home. Keep your overhead to a minimum, buying only the items that you

absolutely need to run the business. (You can purchase more for your business later, as it grows and prospers.)

A local office of the Small Business Administration (SBA) offers free seminars, books, and other products to help you get your business off the ground. In addition, the Service Corps of Retired Executives (SCORE) offers free consultations with experienced (and now retired) execs. Check out the SBA's website, www.sba.gov.

Holding Down a Couple of Part-Time Jobs

If you're unable to find a full-time job to replace the one you had, one way to get your financial picture back in focus is to look for a couple of part-time jobs and combine the hours to work full time (or longer). The following sections give you a few tips for successfully managing two part-time jobs. Keep in mind that working long hours can take a toll on you and your family.

Make Each Employer Aware of the Other

If your hours aren't fixed at either job, make sure that each employer knows you have another job—and let each employer know what hours you're available to work. You'll have a better chance of making this situation work.

Establish Boundaries

Scheduling two part-time jobs can be extremely difficult unless you establish some boundaries for the hours you work on each job. For example, Job A might be weekday mornings only—anytime from 6:00 A.M. to 1:00 P.M., Monday through Friday. Job B might include weekend hours, from early in the morning 'til late at night.

You'll still have some conflicts—like when your weekend boss has you working until midnight on Sunday and your weekday boss wants you in at 6:00 A.M. on Monday. But by establishing some boundaries for each job, you'll have less overlap.

Try to Get a Set Weekly Schedule

When you look for part-time work, give priority to jobs that give you

the exact same hours each week. That way, you'll be able to work your other part-time job around the first without any overlaps.

Considering Another Geographic Location

If you're struggling to find work in your immediate area, you can always expand your prospects by branching out into another geographic area. This sounds simple, right? Unfortunately, it isn't. Finding out about out-of-town positions is easier than it has ever been, thanks to the Internet. Actually landing the job, however, can be much more difficult. In general, employers in other geographic locations find that out-of-towners are expensive to hire and often flee back to their home area the first chance they get.

■ BUDGETING TIP

The websites listed earlier in this chapter are easy to use and list thousands of jobs (usually by the dates they were posted, so you always know how hot the lead is). If you're interested in taking on work nearly anywhere in the United States, make a point of checking these sites every morning, searching by city, if possible.

To make yourself a more attractive candidate in the eyes of an out-of-town employer, consider the tips in the following sections.

Clarify That You're Not Seeking Relocation Assistance

The main fear of out-of-town employers is that you're going to expect relocation assistance if they offer you a job. That assistance can include the costs of house hunting in advance of the move, the move itself, help selling your house (including, but not limited to, actually buying your house from you if it doesn't sell), help finding employment for your spouse, paid trips back to tie-up loose ends, and so on.

These costs can be incredibly expensive even for large companies, so put their mind at ease by indicating in your cover letter that you're planning to pay for your own move and will not require any relocation assistance.

Say You'll Pay for Interview Expenses

If you were happily employed and had the leisure of weighing out-of-town job options, you might expect to be flown out for an interview. But given that you want to find work immediately, mention in your cover letter that you plan to pay for your own interview expenses (driving or flying out, staying in a hotel, paying for meals, and so on).

One way to get out-of-town employers to respond quickly is to let them know that you'll be in the area on a certain date—say, four or six weeks out—and that you'd like to set up an interview at that time. This gives the company a chance to see you in person, but it also forces them to interview you on a timely basis.

Indicate That You're Moving Regardless

Even if you aren't planning to move without a job, make your cover letter sound as if you're definitely relocating to the area and are looking for employment in advance. This, combined with your readiness to pay for your own interview and relocation expenses, may make you as attractive as an in-town candidate.

Be sure to mention all of the nonwork-related reasons that you're moving to the area. (Hint: Make up some of these reasons if you don't have any!)

Chapter 20

Sticking to Your Budget— No Matter What

As mentioned at the beginning of [Chapter 19](#), too often, a budget gets derailed because of an unexpected expense. Ideally, you want to keep money in savings for such emergencies, but in case you haven't had time to build up your cash reserves, this chapter gives you ideas for sticking to your budget even in the worst of times.

If Your Car Breaks Down

Most people on a tight budget have one prayer: “Please don't let anything happen to my car.” That's because car repairs can cost hundreds or even thousands of dollars, and you often can't get back and forth to work without a car. So what do you do if your car does break down?

Immediately Find a Way to Work

Whether you have to arrange for a ride from a coworker, ride a bike, take the bus, rent a car, or walk, if you're in an accident or your car isn't running, figure out a way to get to and from work without delay. Too many jobs have been lost because, for three or four days, an employee couldn't get to work and an employer wasn't very understanding. If you have to miss or be late for even one day of work because of your car, call your supervisor and explain that you have car problems and are trying to find an alternate way to work right away.

■ BUDGETING TIP

Consider alternate ways to get to and from work before your car breaks down. Even if you never have a bit of trouble with your car, you'll have the peace of mind that comes from knowing how you'd handle a car crisis if you had one. Remember the discussion we had earlier about the usefulness of public transportation (Chapter 8)? This would be a good time to review that

material.

Research Your Warranty and Insurance Coverage

If you recently bought the car new and your car troubles aren't due to an accident, your car is probably under warranty and will be repaired for free. Even if you bought the car used, you may have a short-term warranty that covers the repairs you need. If your car isn't running because of an accident, call your insurance company to determine how much of the repairs your policy pays for.

Get a Free Repair Estimate

If you can get your car to a repair shop, take it there and ask for a free, no-commitment estimate. Make sure you emphasize the "free" and "no-commitment" parts of the estimate. Many repair shops don't charge for estimates as long as you end up repairing your car there. If you decide not to repair it, or if you go somewhere else for the repair, they'll bill you \$50 or \$100 for the estimate! Be sure to let the repair shop know that you're on a very tight budget and need to know the least expensive way to get your car running again.

If you can't get your car to a garage or repair shop without towing it (which can be very expensive), call a few garages and describe the problems you're having. Tell them about your tight budget and ask for a ballpark estimate for the problems you're describing.

Call Around to Compare Your Price

After you know what the problem is, call several garages in your area to find out what they will charge for the same repair. Emphasize that you need to know the total amount and can't afford any surprises. If they won't give you a price, call somewhere else.

■ BUDGETING TIP

Some car repairs are simple enough to do yourself. If you or a friend or family member know anything about cars, consider buying the parts and fixing it yourself. If you have an alternative way to work every day, you can spend a few hours each evening working on your car until it's repaired.

If you're going to have it repaired and can't drive it, also call several towing companies to find out how much they'll charge to tow your car to the shop. Keep in mind that your insurance company or travel club may also offer free towing in a limited area. Find this out before you call a tow truck.

Find Out if the Shop Will Let You Pay over Time

When you find the repair shop that has the best prices and can get the job done quickly, find out whether they'll let you pay over time, say, in three or four payments, without charging interest. They may say no, but it's worth asking.

Develop a New Budget

Using the repair estimates, develop a new budget. Do you have money in savings that you can use? Can you pay the shop a little each month? Can you make the repairs yourself? Can you live without a car and walk, bike, or carpool to work? Can you buy a new-to-you car and still stick with your budget?

■ BUDGETING TIP

There are several credit cards that help with car expenses, either giving you rebates on gasoline purchases or giving you points that you can use to buy a new or used car, maintain your car (with tune-ups and oil changes, for example), or make needed repairs.

Investigate every possible option, but be realistic in your numbers. Whatever route you decide to take—whether that's to make the repair, get another car, or find a way to do without—use your revised budget to begin working toward your financial goals again.

If You Incur Extensive Household Expenses

While you can put off some household repairs, others are critical. If the roof leaks, the sewer drain is clogged, the water isn't running, or you've lost electric power to some of your rooms, you need to get them repaired or replaced. These repairs, however, can be expensive!

The first thing you want to do is try to fix the problem temporarily, so that the repair doesn't blossom into something bigger. Can you, for example, stop the roof's leak by going up into the attic and putting plastic under some of the decking to stop water from coming in? Can you clean out the sewer line with a snake (available from any hardware store)? Have you called the water company to see whether the problem is on its side (that is, in the lines leading up to your water meter)?

Ultimately, however, you're going to have to make one of two choices: Sell the house with the problem or fix the problem. The next two sections discuss these two options.

Sell the House

One way to get out from under large, expensive repairs is to sell your house and move to a smaller one (see [Chapter 14](#) for details on why you would want to do this). The problem, of course, is that either you'll have trouble selling the house to any buyer or you'll have trouble selling it for very much money.

One way to avoid losing too much money is to price the house as though the repair did not have to be made (as if the roof were in great condition, for example), and advertise up front that you'll give back half (or two-thirds, or all) of the amount necessary to make the repair at closing. You won't actually have to come up with that cash out of your savings or other account. Instead, that amount will be subtracted from your equity (the amount of your house that you have paid off) and given to the buyer as a lump sum. You'll get that much less money from selling your house, but you're likely to get more buyers than if you simply price the house lower in the first place. Why? Because many buyers can't afford to make large repairs—they're using all of their cash reserves for the down payment.

Here's an example. With a new roof, your house would be worth \$90,000. You price it at \$84,000 to account for the new roof the buyers will have to get. The buyers are putting 20percent down and they'd planned on buying a house for \$90,000, so they've saved \$18,000 for this purpose. If you price the house lower, they'll have to put down only \$16,800, so they're able to keep \$1,200 of their down-payment money. But \$1,200 isn't enough to pay for the roof! Instead, you sell the house

for \$90,000 but give \$6,000 back at closing. They put down their 20 percent (\$18,000), but also walk away with a \$6,000 check to pay for the roof. And you still get your \$84,000 (minus whatever the balance is on your mortgage) and can look for a smaller house.

■ BUDGETING TIP

Many people don't realize that a Realtor's commission may be negotiable. Before signing with a selling agent (also called a listing agent), discuss the commission (usually 3 percent or 3.5 percent to each agent or 6 percent to 7 percent if one agent represents both the buyer and seller). See if your agent will drop down to 3 percent or 2.5 percent for each half of the sale.

If you're thinking of selling your house, keep in mind that many house sales do not require the use of a real estate agent. Because agents get 6 to 7 percent of the selling price of the house, if you don't hire one, you can afford to do a lot of advertising and pay for an attorney or Realtor to draw up the paperwork (which usually costs \$500–\$1,000), and still come out ahead. Many people use real estate agents because they believe they'll get a higher price for their homes—after all, Realtors get a higher commission if the house sells for more money. But even this may not be true. Most Realtors would rather sell a house cheaply and quickly than price it high and wait for it to sell. If they have to wait an extra three months—and do quite a bit more work showing and advertising the house—to sell it at a higher price, they actually lose money; they'd rather sell it three months earlier for less money.

Keep in mind, however, that if you act as your own agent, you'll have to put up a sign, take out ads in your local paper, and show the house yourself, and you won't have a Realtor to turn to for advice along the way. Use your best judgment. If you take some time to read up on how to sell your own house and think you're up to the task, go for it. If you don't think you'll be successful at selling your own home, shop around for a good Realtor.

Pay for the Repair

If you have money in your savings account, even if it was earmarked for something else, you probably want to use it to pay for your home

repairs. Short of that, the most logical way to pay for overwhelming household repairs is to refinance your home and cash out some of the equity to pay for the repair.

Even if you don't have much equity in your house (to find your equity, subtract the amount owing on your mortgage from the amount your house is worth), some lenders will still give you cash back, financing your house for up to 120 percent of its value. This can help you pay for your home's repair, but it can hurt you in two ways:

1. Your monthly payments may soar. (On the other hand, if interest rates are lower than when you bought your house, your monthly payments may stay the same.)
2. You may not have any equity in your house if you plan to sell it in a few years.

You never want to finance your home for more than you can sell it for. If your income changes, you might be trapped in your home, unable to sell it and unable to afford the payments.

If Family Medical Bills Overwhelm You

Even if you carry health insurance, unexpected medical bills can still pile up. Here's why. Suppose your insurance carries a \$250 deductible and then pays 80 percent of your medical expenses (your 20 percent is called your co-payment). You are in a car accident that doesn't do any permanent damage to your body, but does result in \$15,000 in hospital bills. Of that \$15,000, you'll owe \$250 for your deductible and \$2,950 for your co-payment, for a total of \$3,200! Where in the world are you going to come up with that?

Generally, you have only one option: Work out a payment plan with the hospital. (A second option is to pay the bill with your credit card and pay it off aggressively each month, but often the interest rate on credit cards is sky-high.) Some hospitals offer interest-free payments if you pay within three to six months; others charge interest (but usually less than credit card companies charge) no matter how soon you pay.

■ BUDGETING TIP

Never ignore payment notices from a hospital or doctor's office. So many people do this that medical providers are quick to turn to collection agencies and send negative reports to credit-reporting agencies. You may damage your credit rating for years to come.

Most medical providers are willing to work with you to pay off a large balance. They need to know immediately, however, that you'll have trouble paying the balance and want to set up a payment plan.

If you're not sure how much you can pay, revisit your budget. Eliminate any expenses that aren't absolutely required (see [Chapters 7 through 9](#)), and see how much you may be able to eke out each month. When you've determined how much you can afford to pay each month, approach the medical provider with this amount to see whether it's acceptable. You may have to sign an agreement saying that you'll pay this amount each month—be sure you can pay it before you sign. Remember: Check your budget first. If you're given a monthly amount by the medical provider, don't agree until you've run the numbers on your budget.

If You Become Sick or Disabled—Even Temporarily

If you're in an accident or develop an illness that leaves you disabled even for a short period of time, call your employer immediately. Most employers carry disability insurance on their employees that ranges from 40 to 80 percent of your income, and most can offer you some pay for sick time until that insurance kicks in. Send your employer every bit of information they need to process your claim, including letters from your physician. A call from your doctor to your human resources (HR) representative can also be quite helpful.

Whatever you do, don't get defensive with your employer. Your HR rep should feel as though you're as horrified at your absence as the company is, and that you can't wait to get back to work. Keep in mind that some employees fake illness and injury in order to collect disability pay without working, and you don't want to be labeled as someone who

is trying this scam. If the company doesn't believe that you're actually disabled, you could lose more than a few weeks' pay—you could lose your job. You might be able to fight it in court, but that takes money, too. Instead, contact your employer immediately and work with them to resolve your problem.

Even if your company carries disability insurance, however, it may not kick in for some time, and when it does, it won't give you 100 percent of your pay. In this case—or if your company does not carry disability insurance—take the same actions that you would if you lost your job.

If a Friend or Family Member Has a Special Need

Many, many people are in financial trouble because they've given a friend or family member financial assistance that they clearly cannot afford—making a loan that isn't paid back, offering free room and board, buying a car for someone. Don't let this happen to you.

If a friend or family member is in need, you absolutely must help. But, if possible, avoid helping financially unless you can afford to lose that money completely. Always assume that loans won't be paid back or will be defaulted on, expenses associated with free room and board will be completely on your shoulders, and so on. If you can't afford to lose the amount of money that helping your friend will cost, don't help financially. Offer prayers, free baby-sitting (for a limited period of time), an occasional ride to work, and so on.

Also consider taking your friend to a credit-counseling agency (see [Chapter 10](#)) or to a lender to see about getting financial assistance. Don't, however, cosign any loan that you cannot afford to pay off yourself.

Conclusion

Living the Life You Want

Too many people, when planning a budget, decide that to meet their financial challenges they must cut absolutely everything. They stop eating and drinking as much, they eliminate visits to the hairdresser, they cut out shopping for clothing, and they never, ever go to the movies.

Such well-intentioned budgeting doesn't usually last very long. First one thing slips, then another, and before you know it the budget is just a piece of paper, shoved to the back of a drawer and forgotten.

The key to successful budgeting, as I've stressed in this book, is that *you've got to want to do it*. You've got to be motivated, disciplined, and sensible. This involves the following basic steps:

1. Decide what your dreams are. These can be short-term or long-term; it doesn't matter. What's important is that they matter *to you*. The more you care about your goals, the easier you'll find it to stick to a budget.
2. Figure out where you're at. In [Chapters 3](#) through [5](#), you looked realistically at what your income and outgo are and what you owe in short-and long-term debt.
3. Decide where you can make savings. Obviously one way to realize your dreams would be to become extremely rich, but that's not going to happen to most of us (and, by the way, don't think for a minute that rich people don't need budgets!). The savings you make should be realistic, motivated by your goals, and easily achievable.
4. Invest in your budget. If the budget is just for you, review it regularly and adjust it as needed. Keep your goals front and center; they're what drive you to stick to the budget. If you're part of a family, let the other family members in on the budget. Get ideas from everyone about savings and how to meet your dream goals.

Don't be surprised if your goals shift quite a bit over time. For example, retirement is today a much more expensive proposition than it was for many of our parents. That's natural; life's gotten more expensive.

A budget isn't a rigid, fixed document—it's a living thing. It grows and changes along with you. Don't be afraid to constantly review it and make sure it's working and that it's getting you closer to your goals. Above all, view it as a tool—one that will get you from where you are now to where you want to be.

Appendix A

Debt-Restructuring Resources

Looking for assistance in restructuring your debt? The nonprofit organizations listed here can intervene with your creditors on your behalf, lowering your interest rates and allowing you to make a single payment each month to pay off your debt, usually in five years or so.

The credit-counseling agencies listed in this appendix make up some of the largest in the United States. That does not imply, however, that they're any better than an agency in your local area—and yours may be much more personalized and convenient. To find an agency in your area, look under Credit Counseling in your yellow pages. To use the Internet, search using the words “credit counseling” and the name of your city or area.

Don't forget to ask whether the credit-counseling agency you're thinking of using is a nonprofit organization. If it isn't, go elsewhere!

American Consumer Credit Counseling, Inc.

American Consumer Credit Counseling offers credit counseling, budgeting, and debt-management plans that can help you become debt-free. Counselors help you lower your interest rates, lower your payments, and still pay off the entire amounts in three to five years.

(800) 769-3571

www.consumercredit.com

Association of Independent Consumer Credit Counseling Agencies (AICCCA) The AICCCA website provides a link to finding a counseling agency in your area. (They do not offer a toll-free phone number.) This agency was created by credit counselors and exists to ensure that all

credit counselors and exists to ensure that all credit counselors (not just member agencies) maintain professional standards. If you want to know whether a particular agency is on the level, check out AICCCA's website.

www.aiccca.org

Better Business Bureau (BBB)

The Better Business Bureau offers advice on choosing a credit-counseling agency. You can also call your local BBB at the number in your phone book. The BBB was set up as a nonprofit organization that tracks the way companies do business. They log complaints from consumers (including yours, if you have a business), so that when you call and ask about a particular company's reputation, the BBB can tell you how many and what sort of complaints the company has received. The BBB exists in the vast majority of areas in the United States and is one of the most respected agencies in the country.

www.bbb.org

Consumer Credit Counseling Services (CCCS)

Consumer Credit Counseling Services and its parent company, Money Management International, together make up the largest credit-counseling agency in the United States. The website offers tools, articles, and advice, and also allows you to receive their counseling services online. You can also call to receive credit counseling over the phone.

(866) 889-9347

www.moneymanagement.org

The Council on Accreditation of Services for Families and Children (COA) COA serves as an advocate for families and children. When searching for a credit-counseling agency, look

for the COA seal of accreditation, which indicates that an agency meets the highest industry standards. You can also get a list of accredited organizations by checking COA's website—the site is easy to use and simply lists the organizations by state. You can also call toll-free.

(866) 262-8088

www.coanet.org

Federal Trade Commission (FTC)

The Federal Trade Commission provides helpful information on choosing a credit-counseling agency. Keep in mind that the FTC is pretty unbiased. Although they'd like you to have less debt because it keeps the economy healthier, they also want to nab the unscrupulous credit counselors who have set up shop. Bottom line: You can trust the FTC.

(877) FTC-HELP

www.ftccomplaintassistant.gov

National Foundation for Credit Counseling (NFCC)

The NFCC is the nation's oldest nonprofit network of credit counselors, offering more than 1,300 offices across the United States. They recommend that you look for the NFCC seal before choosing a credit-counseling agency. The seal signifies high standards, trained counselors, and free or low-cost services. For a referral to a credit-counseling agency in your area, call or visit their website.

(800) 388-2227

www.nfcc.org

Appendix B

Budgeting Websites and Online Tools

Websites devoted to budgeting are few and far between, but the websites listed here provide some unique features that you may not be able to find in a book or other publication. While these sites are current as of this book's printing, be prepared for them to change at any time.

About.com: Credit/Debt Management At any given time, on the credit and debt management site at About.com, you'll find over a dozen useful tips, articles, and online tools.

www.credit.about.com/cs/budgeting

Bankrate.com

Bankrate's site is a veritable treasure trove of financial advice. Tips include everything from protecting your identity to getting a car loan to personal finance blogs. If you have questions, chances are this site will give you answers.

www.bankrate.com

Better Budgeting

This e-zine, albeit not strong on design or organization, contains featured articles and columns that pertain mostly to families with children, but many of the tips apply to just about anyone. On any given day, it may cover topics as wide-ranging as home schooling, job hunting, and the price of Treasury bills.

www.betterbudgeting.com

The Dollar Stretcher

This isn't the fanciest or prettiest site on the Internet, but it does offer a plethora of ideas for cutting costs and stretching your dollar.

www.stretcher.com

FinCalc.com

If you want to visit one site that has nearly every financial calculator imaginable, take a look at this site. There you'll find calculators that help you figure how long paying off your credit cards will take, how much retirement income you can accumulate, what you'll save by refinancing your mortgage, how much you can save in your child's college fund, and more.

www.fincalc.com

HSH Associates

At this site, you'll find just about anything you want to know about mortgages. From current mortgage rates to advice on removing your PMI, this site gives you good information if you're thinking about getting a new (or first) mortgage, refinancing, or getting a home equity loan.

www.hsh.com

Kiplinger's

The guru of financial publishers, Kiplinger's useful budgeting website includes calculators and other tools for determining your financial worth and establishing a budget. You'll find everything from determining your current financial position to establishing financial goals to staying out of financial traps. This is a good, all-around budgeting site.

www.kiplinger.com

Marketplace

Many public radio stations feature Marketplace each weekday evening, a broad-based program covering the economy, the business world, and personal finance. The Marketplace website is a useful extension of that

show, sharing tips on home buying, investing, and so on.

www.marketplace.org

Nolo

The Nolo site covers all sorts of legal topics in plain English, and the section on Credit Repair & Debts may answer a lot of your questions about getting rid of collection agencies, restoring your credit, paying off debt (including student loans), and filing for bankruptcy protection. In addition, you'll find up-to-date law changes and additions regarding debt management. This site also offers some useful financial calculators and downloadable worksheets.

www.nolo.com

SavingAdvice.com

This site is all about helping you save money. Frequently updated, the site features excellent tips on saving money day to day, which frees up money to help you reach your financial goals.

www.savingadvice.com

SmartMoney.com

SmartMoney's personal finance page is a smorgasbord of budgeting ideas and tools. Perhaps the best feature is SmartMoney's incredibly cool mortgage calculator, which tells you what your monthly payments will be for a house, the difference between payments on fifteen-and thirty-year mortgages, and more. Click on the Tools tab, Real Estate link, then on the Mortgage Calculator. It also offers up-to-date information on college savings, taxes, retirement planning, investment tools, and so on.

www.smartmoney.com/pf

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