3

# Step Three: Count the Dollars, Not the Pennies

Clip coupons. Get the generic cereal. Buy your pasta in bulk. Take a brown-bag lunch. Watch out for the lattes. Everywhere you go, the same old advice. *Watch your pennies.*

Well, it's time to stop counting pennies, or at least to put it on hold for a while. Why? Is it bad to save a bit here and there? Of course not. But if you are like most people, you have only so many minutes you can devote to worrying about your money. And we want you to spend those precious minutes where they count the most: *your dollars.* Instead of spending your time on how to squeeze a few nickels out of small purchases, it's time to focus on the really big expenses, where an hour on the phone can save you thousands of dollars.

This step starts with an incredibly simple premise: *Dollars are worth more than pennies.*

Of course, this isn't exactly breaking news. But stop and think about it. When you add up all the time you spend making decisions about how to spend your money, what gets the most time? If you're like most people, you spend hours every month thinking about the prices of the little stuff. A pair of shoes, a pound of tomatoes, a bottle of wine—you





look at the price tag, you comparison shop. You weigh your options, thinking twice before you buy.

Now think about the big-ticket items. Your home or apartment. Your car. Your insurance. Sure, you probably thought hard about those purchases . . . once. But when was the last time you thought about them? You probably just write those checks, month in and month out, without thinking about whether you're getting the most for your dollars.

If you are overspending on these big monthly bills, then money is draining out of your pocket a lot faster than you can replace it by getting double coupons on your frozen vegetables. This step—the foundational step for getting straight with your money—will help you get your big Must-Have purchases into balance.

The monthly Must-Haves are the very heart of your money plan. The Must-Haves claim more money than anything else you buy. They keep your life dignified and secure. The Must-Haves are the first, last, and most important purchases, around which all other money decisions are arranged. Balancing your Must-Haves will create the bedrock upon which you can build your entire money plan, for the rest of your life.

## But I Need This Stuff!

It seems so sensible. Prudent. Maybe even a little conservative.

You spend your money on the things you *need.* Who could fault you for that?

No one goes on television or writes a book that criticizes people for spending too much on the basics. Oh sure, someone may chide people for buying an oversized McMansion or a brand-new Lexus. But the real point is that those things are more than anyone really needs—fancy, oversized, expensive stuff that normal people could easily do without. Who says you shouldn't spend all your money on a normal house and a normal car?

We do.

It doesn't matter if you are living in a regular house. It doesn't matter if you are driving an average car. It doesn't matter if all of your Must-Haves seem perfectly ordinary and no different from those of your

neighbors. Because you can't use your neighbors as a guide. Why not? *Because most of your neighbors are not building wealth.* They probably owe money on their credit cards, and they don't have any plans for a better future. They may not talk about it, but the odds are high that they worry about money. A lot.

In recent years, worry over money has become normal. Living out of balance has become normal. Surveys show that fighting over money with the people you love has become normal. Which all adds up to one very important point: *Normal isn't good enough.* If you want to build real wealth and make the most of your worth, then you need to have a plan that is *better* than normal. And that starts with getting your Must-Haves into balance. So even if this seems hard or strange or just "not normal," we want you to tackle your Must-Haves head-on.

Imagine, for a moment, what it will be like to get your Must-Haves into balance. Think of this as like that little mental vacation you take when you imagine what you would look like if you lost ten pounds or how it would feel to cook dinner in a remodeled kitchen. Take a short money vacation: Imagine what it would feel like to have plenty of money in the bank. Picture yourself shopping for clothes or taking a little weekend trip. Does it seem easier, more relaxed, maybe even a little more fun? Now pull up a second vision. Imagine how much safer you would feel if you knew you could miss a few months of work, and you'd be able to cover the rent or the mortgage. And now try one more thought. Imagine yourself socking away some money, month after month. Think about a nicer house, travel, college for the kids. Think about your dreams, think about getting closer to them each day. Sounds good, doesn't it? Keep that feeling in the front of your mind as you pull your Must-Have expenses into balance because that's what you can turn into reality.

This step will require some real effort, but there is some really good news too: *Once you get this right, you won't have to do it again for a long, long time.* Your monthly Must-Haves are recurrent payments—payments that stay roughly the same, month in and month out (and even year in and year out). So once you get them straight, they stay straight. Which means you can put them on the back burner where they belong, and quit worrying.



> Once you get your Must-Have expenses right, you won't have to worry about them again for a long, long time.

Even better, your savings from getting the Must-Haves into balance will come back to you, month after month. That extra money will be yours, automatically. That means there will be more money for fun, and more money for your future. And less time spent worrying about money, so you can focus on what really matters—the rest of your life.

So roll up your sleeves, get out your pencil, and get ready to go. It's time to save some dollars.

### 1. Set a Goal

Getting your Must-Haves aligned is about balance. Not too much, and not too little. Step One showed you what the right balance is for most people—spending about 50% of your take-home pay on Must-Haves, so you have 30% for Wants and 20% for Savings.

Calculate your Must-Have target in Worksheet 5.

**WORKSHEET 5. MUST-HAVE SAVINGS TARGET**

**Part 1: Monthly Must-Have Target**

| Income | |
|---|---|
| Monthly after-tax income (from page 34) | $ ______ |
| Multiply income by 50% | × 50% |
| **Must-Have Target** | |
| = Your monthly Must-Have Target | = $ ______ |

The last line in Part 1 is your ideal spending amount for your monthly Must-Haves. Compare this number with your current monthly Must-Have expenditures (from page 39) to find out how much you need to save. If your current Must-Haves are less than your target, this means you are spending less than 50% of your income on Must-Haves. You don't need to make any cuts in your monthly Must-Haves, so you can skip Part 2 of this worksheet.

| Part 2: Savings Target | |
|---|---|
| **Current Must-Have Expenses** | |
| Current Must-Have expenses (from page 39) | $ ________ |
| **Must-Have Target** | |
| – Your monthly Must-Have Target (from Part 1, above) | – $ ________ |
| **Total Cuts Goal** | |
| = Total Cuts Goal | = $ ________ |

The last line in Part 2 of Worksheet 5 shows you what you're working toward—the total cuts you want to find.

Goal: Cut $ ________

Keep the number in front of you because it is your goal: This is the amount of money you want to squeeze from your Must-Have expenses, so you can get your monthly spending into balance. Every time you make a cut in your Must-Have expenses, put it toward that goal.



Does your goal seem like a big number? Stick with it. We will help you get there, step-by-step. And if you ultimately decide that you want to stay a little heavy on the Must-Have expenses for a while, we will show you the steps you need to take to protect yourself.

*What if you are already spending less than 50% of your income on Must-Haves?* Congratulations! Your Must-Haves are in balance with your income, so you have one less thing to worry about. Even so, go ahead and follow the next section, which focuses on places to save money without cramping your style. After all, there's no reason to keep putting money in someone else's pocket if you can keep it for yourself!

## 2. Cut the Easy Stuff

When you are cutting back on expenses, start in the easiest places—the spots where you can make cuts that you will never feel. The price comparisons may take a little time, but the results are the best—all gain, no pain. Your day-to-day living will feel the same, but you can keep more of your money.

### Lower Your Insurance Costs

Yes, insurance sounds boring. We don't know any little kids who zoom around the living room pretending to be insurance reps. And shopping for insurance sounds like about as much fun as cleaning the gutters in a rainstorm. Even so, *saving* money sounds good, right? And talk about a place where the saving is easy! A couple of phone calls, and you can save month in and month out, *for years.*

The big secret of insurance is that most people are paying too much—way too much. The companies just keep pocketing the profits. Homeowners' insurance, life insurance, car insurance—you name it, most people just overpay. If you haven't shopped in the last two years, you probably pay too much. If you only got one quote before you signed up, you probably pay too much. If your real estate agent arranged for the insurance when you bought the house, you probably pay too much. And if you have a deductible less than $500, you probably pay too much.

Let's start with a quick review of which types of insurance you need. Car insurance and homeowners' (or renters') insurance are the most obvious. Health and disability insurance are also a must, but they're a little trickier (and most people get them at work), so we'll talk about them in a separate section later on. If you have dependents, you need life insurance. And if you're over 55, long-term-care insurance may also be a good idea.

Shopping for insurance isn't hard. You don't have to drive anywhere, and you don't have to try anything on. Hop online for some quotes or pull out the yellow pages and call a couple of agents. They will be eager to quote you the price for a new policy.

Here are some tips for saving on your homeowners'/renters', life, and car insurance bills:

- *Consider buying all of your insurance from one company.* Some companies give big discounts if you carry your homeowners', car, disability, and life insurance in the same place. Ask.
- *Ask about other discounts.* Insurance companies offer all kinds of discounts—some of which might surprise you. Discounts for nonsmokers. For burglar alarms. For smoke detectors. For reaching the age of 65 (or 55). For paying annually instead of monthly. Amelia even got a discount because her husband has a degree in engineering. (We're still trying to figure that one out.) So be sure to ask for a list of *all* the discounts; maybe you'll discover that having naturally curly hair will pay off once again.
- *Take the largest deductible you can.* Choose something that would hurt to pay—not enough pain to make you cry, but enough to make you say "ouch" out loud. Over the long run, insuring against the little things, like $200 damage from a hailstorm or a $150 ding in the parking lot, costs more in premiums than you actually get back. Besides, filing a small claim usually costs you more than it's worth in the long run, because the insurance company can use your claim as a reason to raise your rates. Here's the general rule: Take the biggest deductible they offer (typically $1000 for auto insurance and $2500 for homeowners' insurance). If you don't have enough in the bank to cover a deductible that large, don't worry; we'll help you get there soon.



- *Get at least 5 quotes.* The goal is to save money, so don't take the first offer you get. And don't just get a bunch of quotes from a single agent, who may have an incentive to steer you to a certain insurer. Keep shopping until you get quotes from at least five different sources.
- *After you get your quotes, contact your current insurance company.* Tell them your lowest quote and ask if they can beat it. Sometimes you can get a good deal without the bother of switching.
- *Credit rating affects your insurance quotes.* If your credit rating is low, make a commitment to shop for insurance again after six months of clean living, and to shop again after six more months. As your credit rating climbs, your insurance premiums will drop. Remember, insurance plans aren't like cell phone contracts: If you find a better deal, you can switch whenever you want.
- *Watch out for the extras.* You need car insurance in case you get into an accident; steer clear of add-ons like roadside assistance and free rental cars. Likewise, you need a check when your house burns down, not when the faucet leaks or the dishwasher breaks. Don't sign up for the little stuff. It is nearly always a bad bargain.
- *Choose the lowest premiums you can find—from a reputable company.* Insurance companies are all pretty much the same, so long as they're high-quality companies. To judge the quality of a particular insurer, find its rating from an independent judge like A. M. Best, Moody's, or S&P. (These ratings are available online, or you can ask the insurance company to tell you.) So long as an insurer has a good rating, get the lowest quote you can and don't worry about which company sponsors the fastest car at Indy.

### Get Rid of the Insurance You Don't Need

Now that you are spending less on the insurance you need, it is time to get rid of the insurance you *don't* need. This advice may surprise you; after all, it seems so responsible to buy insurance—so why not buy more? But insurance is like anything else that's for sale: Sometimes it's worth the money, and sometimes it isn't. Below are the most common insurance rip-offs that you should stay away from:

• *Credit disability insurance (or credit unemployment insurance).* Credit card companies now offer insurance on their own credit card balances. These are bad deals squared! They say they will cover you if you lose your job or get seriously ill, which sounds pretty good. But—and this is a very big "but"—these policies are incredibly expensive and offer very flimsy benefits. Most of these policies do nothing more than let you skip your monthly payments on the balance you were carrying at the time you got sick or lost your job. This means that if you don't carry a balance, the policy is completely, totally useless.

Even if you do carry a balance on your card, the company doesn't pay it off; they just suspend interest (for a while), without giving you any new credit to cope with the costs of losing your job. (And some of these policies don't even suspend interest payments; they just sock you with a bigger bill down the road!) This kind of "insurance" is a real sucker's bet. If you're carrying it, drop it today—and demand a refund for the unused portion.

• *Credit card loss protection.* The FTC has identified credit card loss protection as one of the top three scams in America, taking in more than 3 million people in the last year. This insurance promises to cover your losses if your card is stolen and the thief goes on a spending spree. Sounds good, but here's the catch: Federal law *already* limits your loss to $50 per card! You might as well buy an insurance policy to cover you if you drop a bag of groceries on the sidewalk—sure, it is a nuisance, but you don't stand to lose much money.

• *Identity theft protection.* This is the latest scam, primarily marketed by credit card companies. (Hmm, notice any pattern about insurance marketed by credit card companies?) Sure, the protection sounds good, but stop to ask yourself: Can a company really prevent thieves from using your personal information to their advantage? Of course not. The benefits of most of these policies add up to little more than someone making a few phone calls on your behalf if you become a victim. Do you want to pay big bucks each and every month, just so someone may someday make a couple of phone calls? Nope. If you have identity theft insurance, dump it.

• *Specialty life insurance products.* Life insurance is there to replace your income and to provide for your dependents if something happens



to you. Sounds simple, but there are an awful lot of insurance peddlers who are making fat profits by making things seem a whole lot more complicated than they actually are.

- *Insurance for kids.* Gerber Life and other companies have made a booming business out of preying on the fears of young parents, and, in our opinion, they deserve a face full of strained peas for doing this. Kids don't earn income, and they don't have dependents, so they don't need life insurance—plain and simple. If you want to put something aside for your kids, put money in a college savings plan or buy a savings bond. Put your money into something they can use later on. But don't waste your money on a life insurance policy.
- *Cash-Value insurance.* Also known as "whole life" or "universal" life insurance, this is ordinary life insurance with a savings plan tacked on. Cash-value insurance is quite expensive, and it requires you to hand over control of your savings plan to an insurance company that usually gets mediocre returns. These policies also tend to charge very high agent fees, which usually wipe out any tax savings or other benefits. Most experts agree that you'll get a lot better results if you just buy ordinary term life insurance—and invest the difference on your own.
- *Mortgage life insurance.* This pays off the mortgage on your home if you die. That sounds good, but it costs *three times* more than an ordinary life insurance policy with similar benefits. You would be better off taking the same money and buying more life insurance, which could pay off the mortgage *and* leave a lot left over for your loved ones. If you have mortgage life insurance, call and cancel right away.
- *Accidental death insurance.* This is life insurance—with a twist. It only covers you if you die in an accident. Since only 5% of deaths are from accidents, odds are very high that your loved ones would never collect a dime. Pass it up.
- *People with no dependents.* If you don't have dependents, cancel your life insurance. If no one is counting on you to take care of them, then don't pay an insurance company for protection that no one needs.

- *Odd insurance.* All kinds of companies offer all kinds of odd bits of insurance. The phone company will insure your phone jacks—for a monthly fee. The pest control company will insure your house against termites. The dishwasher manufacturer will sell you an extended warranty. The travel agent will sell you flight insurance in case the plane crashes. Some companies will even sell you alien-abduction insurance. Most of these policies are way overpriced for what you get. Unless you have some special reason to believe you are vulnerable (like your basement is full of tangled old phone lines or there's a flying saucer that hovers over your house), don't waste your money.

## Get a Discount on Your Student Loans

Still paying off that degree in medieval history? Many student loan issuers will give you a discount if you are careful to pay on time, or if you authorize monthly transfers from your bank account. For example, Sallie Mae (the nation's largest issuer of student loans) will slice 2 percentage points off the interest rate on certain loans if you have made your payments on time for the past two years. Ask your student loan issuer if you can qualify for any discounts; it is worth a phone call. But watch out for private banks that offer to consolidate your student loans; they may lower your monthly payment, but usually at the cost of keeping you in debt longer than necessary. The goal is to get a cheaper interest rate *without* prolonging your payments.

## Reshop Your Mortgage—But Be Careful

If you haven't checked your mortgage rate in the past year or so, then it is worth shopping. This may be your single biggest opportunity to shave money off your Must-Haves without changing a thing about how you live. But be warned: This can be dangerous territory. The rules of the game are changing fast, and there are a lot of companies (including some with very big names) that are doing their best to cheat you. So keep alert and watch your step.

Here are the 6 rules of mortgage refinancing:



1. *Arm Yourself Before You Call.* You can save a lot of time in the long run and make things a lot easier if you get ready before you start shopping.

- *Clean up your credit report.* The mortgage lender will start by ordering a copy of your credit report, so your best bet is to clear up any errors ahead of time. Order a copy of your credit report from each of the three big credit bureaus: Equifax, Experian, and TransUnion. (Depending on where you live, you can get your report for free or for a very low fee.) Steer clear of anyone who offers to clean up your credit report for you; they charge a lot of money, and most of them don't do any good anyway. This is strictly a do-it-yourself job.

  If you find any errors, notify the credit bureau immediately. Here are some common errors to look out for: mistakes in your name, Social Security number, and other personal information; accounts that are not yours; bankruptcies that are more than 10 years old, and other negative information that is more than 7 years old (by law, the credit bureau is required to remove that information); credit inquiries that are more than 2 years old; missing notations when you've disputed a charge; list of credit card and mortgage accounts that are in good standing; closed accounts that are incorrectly listed as open. According to a recent poll, 1 in 4 credit reports contains an error serious enough to keep you from getting a good loan, so be sure to take the time to check your credit report before you apply for the mortgage.
- *Gather your financial information.* Gather your pay stubs, tax returns, bank statements, and the like. You'll need this before you can finalize your applications, so you might as well gather it ahead of time. You can usually get a more accurate quote if you have all the information at the time you apply.
- *Find out your current mortgage balance.* This should be listed on your monthly mortgage statement. If you've thrown that out, then call the mortgage company and ask.
- *Learn how much your house is worth.* The lenders will need to know this so they can calculate a "loan-to-value ratio" (which

tells them how much equity you have in the house). The more equity you have, the better your interest rate. Eventually you will need an official estimate of the value of your house, but having a general sense ahead of time can help you with your shopping. So check out the open houses in your neighborhood and take a look at the real estate section of the newspaper so you get a ballpark estimate of what your house is worth.

2. *Get multiple quotes.* Before you buy something big—say, a washing machine or a new television—you probably check prices at two or three stores. Well, your mortgage probably costs 200 times more than your washing machine, so you should talk to 400–600 mortgage companies, right? Okay that's a bit much, but you get the point—shopping hard for a mortgage can save you far more money than shopping for pretty much anything else. So put in the time to get it right. Here's our rule of thumb: Five quotes before you quit. Five different mortgage companies with lots of information and plenty of range to compare. And if the quotes are all over the place, then you may want to get five more. The bottom line is that the time you spend here pays off big-time.

3. *Never forget that the mortgage broker does NOT work for you.* The mortgage broker, like an insurance broker, gets you price quotes from a lot of different places, and gets a commission for his services. So far, so good. *But,* mortgage brokers (unlike most insurance brokers) often get extra commissions from the lender if they talk you into taking a mortgage with a higher interest rate than you actually qualify for. That's right: They get kickbacks for steering you to a bad deal. And it's perfectly legal, so you'd better beware.

Yes, it is your money. Yes, you choose which lender will have your mortgage. Yes, the broker will tell you that he "checked with all the banks" and that he found you "a great deal." But the fact is, mortgage brokers are a lot like car salespeople. The more you pay, the more they make. A recent study at Harvard Law School showed that people who went to mortgage brokers paid, on average, over $1,000 more than people who went directly to the mortgage lender.

Does this mean you should never use a mortgage broker? Not necessarily. There are some reputable brokers who will give you a perfectly



fair quote. (And there are some mortgage companies that will steer you to a bad deal if you *don't* use a broker.) But you should never count on a lone broker, a single Web site, or just one lender to show you all your options. The lesson is straightforward: *You* must get on the phone and get quotes from several different sources. If you're not sure if a particular company is a mortgage broker, just ask. And keep asking questions until you are sure you have the best deal.

4. *Do not increase the amount of money you borrow.* There are lots of people (including a number of so-called financial experts) who will tell you that it's smart to "cash out" your home equity and take on a bigger mortgage. Well, we're here to tell you it isn't smart. In fact, it is just plain dangerous. You are not "cashing" anything. You are just borrowing money that you will have to pay back someday—and you are doing it in the most dangerous way possible. If something goes wrong and you can't pay, the mortgage company gets to take away your house. Later in this book we will talk about home equity loans in depth, but for now just remember this simple rule: When you refinance your mortgage, don't let the bank talk you into taking on a single dollar of new debt.

5. *Watch out for fees, points, and other fine print.* Picture this: a team of lawyers fanning out through a forest to lay bear traps, which they carefully cover over with leaves. Then switch the image: The forest is really just a mortgage agreement, and the leaves are just words to cover up what they are doing. But the traps are real, and you need to make sure that they aren't in your contract. Here's a list of the questions to ask, along with the answers you want to hear:

- *What is the interest rate?* By law, every mortgage lender must quote you the annual interest rate. (You may also be quoted the Annual Percentage Rate, or APR, which lumps certain fees into the total cost.)

  Once you have the annual interest rate, you can make an apples-to-apples comparison on the interest rate, which is probably the most important part of the loan. Here's a rule of thumb: Unless you have recently declared bankruptcy or have *really* bad credit (and we're not talking about a couple of late payments), if someone wants to charge you more than the av-

erage market rate (which is listed in the newspaper and available at www.freddiemac.com), this is probably a bad deal.

- *How many points are on the loan?* A "point" is just jargon for an extra fee of 1% of the total amount of the mortgage loan. Generally speaking, there is a tradeoff between points and interest rate: A loan with fewer points will have a slightly higher interest rate, and vice versa. If you think you will sell the house or refinance again in the near future, then your best bet is usually to avoid the points and pay the higher rate.

  Regardless of how long you plan to stay in the house, you should steer clear of any mortgage that charges more than 1–2 points. Don't assume that all big lenders charge about the same fees. Not long ago, when most companies were charging less than 1 point on refinancing, Wells Fargo reportedly charged some customers as much as *10–12* points!*
- *What are the closing costs, origination costs, and other fees?* Ask for a "Good Faith Estimate" of closing, origination, and other costs, and use this information when you do your comparison shopping. If the fees are unduly large, or if the estimate is in a range that is too wide to be useful (for example, we heard of one company that tells people that the fees are anywhere from $0 to $12,000!), walk away. This isn't a company you can trust for the next 30 years.
- *How long is the payoff period?* The typical mortgage payoff period is 30 years. But if someone tries to steer you to a 40-year loan or an "interest-only" loan (where you *never* pay off your mortgage!), run the other way. And if you have a relatively short time left to pay on your mortgage—15 years or less—get a 10-year or 15-year loan, rather than a 30-year. Lower monthly payments are great, but not at the cost of keeping you in debt for more years than necessary.
- *Is this a fixed or variable rate?* If rates are low, then it is a good idea to lock in the rate for as long as you plan to live in your house. You will pay slightly more for a fixed-rate loan, but the security is worth it; the rate on a variable loan can go up at any time. If you think you will stay in this house for the rest of your life, get a 30-year fixed-rate mortgage. If you are pretty sure you will move on in a few years, you might consider a mortgage that is fixed just for the first 5 or 7 years, which tends to be cheaper than a 30-year fixed loan. Brokers call such mortgages ARMs, for adjustable rate mortgages. At the end of the 5- or 7-year period, the rate can vary, but by then you will have sold the house and moved on. But stay away from any ARM that lasts less than 5 years; the risk that rates will rise while you're still living there is just too high. And if you're not really sure whether you'll move or stay put, your safest bet is still a 30-year fixed loan. It costs a little more, but 30 years of easy sleeping is well worth the price.

* Ken Shimamoto, "Wells Fargo Woes," *Fort Worth Weekly*, 2003.



- *Is there a balloon payment?* If the answer is yes, walk away. A "balloon payment" is a giant payment that will be required of you at some point in the future (on top of your usual monthly payments). These are notorious scams that have cost countless homeowners tens of thousands of dollars in extra fees, and many have even lost their homes.
- *Is there a prepayment penalty?* If the answer is yes, walk away. If you need to sell your home, or if you want to refinance to obtain a better rate in the future, a prepayment penalty leaves you at the mercy of your mortgage company—paying extra for the privilege of paying off your loan.
- *Is there a Yield Spread Premium (YSP)?* This is industry-speak for the kickback that gets paid to brokers for steering you to a bad deal. Ask if the loan has a YSP. If the answer is yes, walk away. And if you can't get a straight answer, run away. These aren't people you want to deal with.
- *Do I have to take out Private Mortgage Insurance (PMI)?* When you buy a home with a small down payment (less than 20% of the purchase price), most lenders require that you take on Private Mortgage Insurance (PMI). If you get in trouble and the bank forecloses, the PMI will pay the mortgage company off. It doesn't benefit you and it doesn't help you hold on to your

house, so it's really only there to help the mortgage lender, not you.

If the lender tells you that you have to buy PMI, try another lender. If you have built up some equity and your credit is good, some lenders will waive the PMI requirement even if you haven't hit the magical 20% mark.

If PMI is a must, then be sure to ask what the cost is, and use this as part of your comparison shopping. If the lender tells you that your loan includes "single-premium PMI," then run the other way. Single-premium PMI charges you an up-front "single premium" for a period of coverage (typically five years), which you have to pay even if you sell the house. Single-premium mortgage insurance is such a rip-off that several consumer groups have advocated outlawing it altogether.

6. *If you are over 60, or African-American, or Latino, shop even harder.* Here's a tough reality that no one wants to talk about: African-Americans, Latinos, and older Americans are specifically targeted for high-priced mortgages. Take it straight from the mortgage lender's mouth; when a loan officer at a major bank was asked how she decided which customers to hit with extra fees, here's what she said:

> If someone appeared uneducated, inarticulate, was a minority, or was particularly old or young, I would try to include all the [additional costs] CitiFinancial offered.*

In other words, this company's lending agents routinely steered families to higher-cost loans whenever they thought there was a chance they could get away with it, and they thought they could get away with targeting certain groups. This wasn't an isolated incident; one study showed that on average, people who live in *high-income* African-American neighborhoods get charged *more* for their loans than people who live in *low-income* white neighborhoods.

This isn't fair. This isn't right. Most of the time, it isn't even legal. But the fact is, you need to protect yourself. Get some of your quotes

* Paul Beckett, "Citigroup's 'Subprime' Reforms Questioned," *Wall Street Journal*, July 18, 2002.



online or over the phone, so a banker can't try to steer you to a bad deal based on the color of your skin or the gray in your hair. If you live in a neighborhood that is predominantly African-American or Latino, be sure to get quotes from banks outside your neighborhood. And, whatever else you do, get more quotes than you think you need. We know that's a lot of work, and, as we said, it isn't fair that you should be put out because of other people's prejudice. But sharks are preying on your community, and you don't want to get eaten alive. So do what is necessary to protect yourself and your loved ones.

When you have made up your mind and decided to take the plunge, request that the "HUD-1" be sent to you the day *before* the closing. The HUD-1 is a form that lists every single expense, and every mortgage lender is required to provide one. You can look it over on your own time, and you can compare it with the estimate the bank had given you. If you see new costs, or if you just don't like something, walk away. And if something has changed on closing day, don't sign anything. There are scam artists who make their money off bait-and-switch mortgages, so don't get caught. I (Amelia) have a close friend who discovered a prepayment penalty buried in her loan contract when she showed up on closing day. When she refused to sign, the mortgage broker pulled a separate set of papers out of his briefcase. As it turned out, he was carrying *two* sets of mortgage papers, on the off chance that he could get away with tacking on some extra charges at the last minute!

So be ready to walk away. You already have a mortgage, so you can take your time. There is too much money at stake to go forward with people you don't have confidence in.

Even after you sign, federal law gives you three days to cancel the deal and get all your money back. These are your rights. Refinancing a mortgage is a big deal. Getting it right—or wrong—could make a big difference in how much money you have over your lifetime. So be tough.

Refinancing is hard work, and it can be costly, so you don't want to do it very often. But if you are very careful and you shop around, you can save a lot of money. Think of refinancing your mortgage as a temporary job. You'll do some extra work for a couple of weeks, and you'll

inue to collect the rewards for years to come. Now that's the best
ping gig you'll ever get!

## ou Are Renting, Negotiate a Better Deal

at if you rent and you need to cut your Must-Have expenses? Is
e anything you can do? No guarantees, but there are some things
can try that may cut your costs.

f your landlord tries to raise the rent, that's a particularly good time
egotiate. Do a little comparison shopping, so you know whether
r rent is in line with other apartments in the area. And be sure to
k out the tenant laws in your area; many cities limit how much
r landlord can raise your rent in a single year.

Once you've done your research, talk to your landlord (or write a
e, if talking face-to-face gets all the butterflies fluttering in your
nach). Sometimes a landlord would rather take a lower rent than
with another vacancy. Handle this diplomatically—explain that
are trying to bring your budget in line, you really like the place and
ld like to stay, but the cost is just a bit more than you think you can
y manage.

Another possibility is to offer your services in exchange for a break
your rent. Many landlords run small operations—a few houses, a
ll apartment building—with no big, professional staff to run the
e. Landlords will sometimes reduce the rent for a tenant who
eps out the common areas, handles simple maintenance jobs, or
ts vacant apartments. Or maybe your landlord provides something
you could do without? If your apartment comes with two parking
es, could you offer to give one back—for a reduced rent? The cir-
stances will vary from place to place, but you get the idea. Keep
r eyes open, and you may be able to trim your monthly rent.

## np the Long-Term Contracts

st month free!" "Save $10 a month!" "No payments until January!"
For one of us (Amelia) it was a gym membership. Not far from



where I lived, the gym was so bright and cheerful, just chock-full of new equipment. And a 2-year contract wasn't all that long, right?

You can already guess how this story goes. For the first couple of months I went to the gym regularly, diligently swimming laps and attending aerobics class. Then I twisted my ankle. Then my boss asked me to work late for a few weeks. Then summer rolled around, and it seemed so much nicer just to head to the beach.

I tried getting out of the contract. No dice. I got mad, and being young and a little hotheaded, I just quit paying. So the gym sent a collections agency after me. They put a black mark on my credit report, and I ended up paying the balance anyway (a year after the membership had ended!). Eight years later, I *still* got hassled about that gym membership when my husband and I applied to refinance our home mortgage. What a nightmare!

It was painful, but I learned a lesson worth all $380 of that stupid gym membership: *Don't sign a long-term contract for things that aren't Must-Haves.* It's okay to buy your home, your car, or your college degree on a monthly payment plan, but for anything else, it is a really bad idea.

> Don't sign long-term contracts for things that aren't absolutely essential.

Wherever possible, get rid of the long-term contracts. If you're in the middle of a 2-year cell phone contract or a 3-year gym membership, let it run out and don't renew. And if you're about to sign new paperwork, don't do it. Get a prepaid cell phone (so you pay only if you use it). Steer clear of long-term commitments to satellite TV. And avoid those long-term gym memberships! Sign up at the YMCA (which typically runs month to month), or just take up jogging.

*But you can get such a good deal!* We know, they'll give you first-month-free or 10% off or a new green toaster if you'll just sign up for 2 years. But stop and think. *Why* are they offering such a sweet deal? Because they're nice guys? Of course not. They offer all those gimmicks and freebies because they know that without that contract, odds are

ı'll drop out. You'll stop going to the gym, or quit watching HBO, just decide the cell phone isn't worth it. In other words, they know u probably won't want their product for the full 2 years and that's ex-ly why they want to tie you down with a contract.

There's another reason not to sign on the dotted line. Step One laid t three conditions for an expense to be classified as a Must-Have: 1. is necessary for your basic safety and dignity. 2. You would spend oney on it even if you lost your job. 3. You couldn't live without this rchase for six months. So how do these companies turn a Want into Must-Have? By getting you to sign a contract. Consider my gym embership. I could have lived in dignity without it (although my ns of steel might have turned into buns of Play-Doh). If I had lost y job, I would have dropped that membership in a heartbeat. But en I signed that long-term contract, I just flipped a Want into a ust-Have. Why? Because the minute I signed that contract, I put my m membership on a par with my car payment and my apartment se: I became legally obligated to make that payment, *no matter what.* my hours got cut or if the transmission fell out of my car, that was st too bad. The gym had a legal agreement they could (and did) en-rce. When I scribbled my name on the dotted line, the amount that I d to pay every month, no matter what, had just increased.

So here's an important lesson about Must-Haves: Make as few com-itments as you can. Many of life's necessities require a long-term con-act—your apartment, your student loans, your car loan. But for erything else, just pay as you go.

re your Must-Haves coming into line? We hope so! We recognize that utting the easy stuff isn't always a walk in the park. There can be some al research, some tough questions, and lots of notes. But there is a ason we call this cutting the easy stuff: When you make these cuts, our *life* is just the same. You live in the same place, drive the same car, njoy the same movies, and have just as much fun. The only thing that hanges is that you have more money in your pocket. And best of all, nce you cut it *stays* cut. Your savings goes on autopilot, month after onth. So take the time to get it right, and reap the rewards for a long ime to come.



### 3. Cut Where It Hurts a Little

Still not there? If the feel-no-pain cuts haven't brought your Must-Have expenses into balance, then it is time to turn up the heat. These cuts involve some real changes in your life, so they're tougher than the easy cuts. But if your Must-Haves are still too big, then this may be the best road to financial balance for you.

#### Get a Roommate (or a Tenant)

Consider an option you may not have thought of: Share your space. Get a roommate. Take in a boarder. Invite a family member to move in.

You may be thinking, "I'm too old for a roommate." Yes, it may be nicer to live on your own. But c'mon, it's also nicer to have enough money for some fun—and something for your future!

If you think you're in the wrong stage of life for a roommate, spend a few minutes thinking creatively. Samantha, an outspoken 44-year-old in the middle of a divorce, desperately wanted to keep her 14-year-old daughter in the same public school long enough to graduate from high school. But there was just no way she could keep up with the mortgage after her husband moved out, and there weren't any affordable rentals in her upscale suburban school district. So Samantha did something that never would have occurred to her earlier: She took out a personal ad in a local circular. "It felt sort of daring, like I was doing something off-color," she laughed. After a few weeks, she got the perfect call: Jody, another single mom looking for a place to live, also in a good school district. The two women met, and they hit it off instantly. By the end of the month, Jody and her 8-year-old twins had moved into Samantha's house. It was a little crowded, and it took some adjustment to figure out mealtime and bathroom schedules. But both families had a much nicer place to live than either could have dreamed about on their own. And they were able to keep their kids in good schools—while still having something left over for piano lessons and Christmas gifts. It can be a little bumpy, but roommates can work, even for those who are well past their dormitory years.

If you live in a college town, if you live near an employer who hires

young workers, or if you live in an area where housing is very expensive, renting out a room could be your ticket to financial stability. Be sure to check out the local zoning ordinances, and read up on lease terms, security deposits, and the like. And keep in mind that taking a roommate or renting a room doesn't have to last forever. You can try it for a year, and see how it works out for you.

Also, consider your extended family. In Europe, where housing costs are much higher than in the U.S., families—even very prosperous families—have always lived two and three generations to a house. An older relative can help with the bills, and may also enrich your life in unexpected ways. Our Aunt Bee lived with us until she was 95, cheering the loudest at every band concert and making cheese grits that were the envy of our Yankee friends. We started living together out of necessity, but we ended up infinitely richer for having knitted our lives so closely together.

### Sell Your Car

Yes, you love your car.

Okay, now we have that out of the way. We know that selling your car isn't pain-free, but it's not that bad. You get to live in the same place, eat the same food, wear the same clothes, and you can still get where you need to go. So here are a few tips about getting your car costs under control.

- *Buy used.* Every expert out there will tell you it is a zillion dollars cheaper to buy a used car. If you are worried about the repair costs, you can even get a "certified pre-owned vehicle" that comes with a warranty.
- *Drive it until it falls apart, and then keep driving it.* Drive your car until the odometer flips. Drive it until you're on a first-name basis with your local mechanic. Drive it until you embarrass your kids. And then drive it some more. And laugh all the way to the bank.
- *Never, ever sign a lease.* Yes, they lower your monthly payments. But what's the cost of those lower payments? You keep paying *forever.* And if you ding the car door or put too many miles on the odometer, they will slap you with extra fees—before they take your car away. In other words, they charge you for the privilege of having no car. It's like Vegas, only the dealer always wins in car leasing. Take a hint from the car companies—they make fatter profits from leases. Why would you want your hard-earned money to make Ford or GM richer?
- *Shop hard for a good rate on your car loan.* You've just picked out the perfect "pre-owned" car, and you're ready to sign on the dotted line. And then the salesman walks in, with a monthly payment number on a little sheet of paper. But where did that number come from? How can you be sure you're getting the best rate? These days, many of the big car makers actually make more money from charging you too much on financing than they do from selling cars! So don't just take the rate the dealer gives you; do some comparison shopping. Get a few quotes from various banks and credit unions, so you can get the best possible deal.



Still not persuaded? Okay, you can keep driving your brand-new shiny machine under one condition: *Your total Must-Haves must be under 50%.* But if your Must-Haves are too high because of your car payments, then it's time to take action. If you have less than a year to go on your loan or lease, hold your breath and stick it out. And if you signed your papers within the past few months, you're probably better off making payments for another year until the amount you owe is approximately the same as the value of the car. (Otherwise, you may be "upside down" on your car loan, which means you could end up paying thousands of dollars to the bank for turning in a car that is worth less than the outstanding balance on your loan.) But as soon as you can, trade that baby in for something cheaper. Because as nice as those quadraphonic speakers may be, they're not as nice as a lifetime of financial peace.

### Return the Rentals

If you are renting furniture, appliances, or anything else besides the roof over your head, then *give it back.* Call the lease company, and find out how fast you can get rid of it. No joke. Furniture and appliance leases are notoriously bad deals. They entice you to get something you

really can't afford, and then they charge you way, way too much. If giving back the rentals will leave your living room bare, then head to the nearest Salvation Army and get yourself a "vintage" couch to tide you over until you save enough to buy something nicer *with cash*. It will feel a lot better to sleep in a bed and watch a TV that is *yours*, even if it isn't as fancy.

*What about rent-to-own?* Rent-to-own typically charges you somewhere between 3 and 10 times too much for second-rate furniture and limited-selection appliances. Ask yourself: Will you be finished making payments within a few months? If not, call and cancel the contract. That's the benefit of rent-to-own: You are allowed to give the stuff back and quit paying. Go hit the garage sales. You'll be way ahead in no time.

## Trim the Health Insurance Bill

Oh, boy, this may sound like a scary one. After all, it's *your health* we're talking about. It doesn't get any more important than that. Even the never-waste-a-penny financial planners will tell you to "buy the best health insurance you can afford." And here we are talking about trimming your health costs. Have we lost our minds?

You are in luck. One of us (Amelia) spent several years working in the health-care industry, and later founded a company dedicated to helping people get more affordable medical care, so we can pass along a few tricks of the trade.

### *If you get health insurance through your job*

- *Opt for the lower-cost plan.* If your company offers several health plans that cover all your basic medical needs (prescription drugs, maternity, preventive care, etc.), consider enrolling in the cheapest plan. You may have to take the kids to a different pediatrician, and you may have to get "preauthorization" before seeing a specialist. But before you dismiss the lower-cost policy out of hand, *do the math*. It's amazing how many people will let their employer deduct an extra $50 (or more) a month just so they can go to a dermatologist who is twenty minutes closer to home. The National Committee for Quality Assurance (www.ncqa.org) can give you information on the plan. Ask your benefits planner what she thinks of the cheaper health plan and whether she has gotten any complaints. If you like what you hear, you can end up saving a lot of money by opting for the cheaper policy—without sacrificing your health.
- *Take advantage of the Flexible Spending Account (FSA).* If you expect to have at least *some* medical expenses, then the FSA (if you work for a big company) or HSA (Health Savings Account, which is like an FSA for small companies and the self-employed) is a no-brainer. These accounts let you pay your medical expenses *tax-free*. Add up the stuff you are pretty sure you will pay for out of your own pocket—prescriptions, glasses, trips to the dentist, and so forth. Then have the money taken out of your paycheck and put into a Flexible Spending Account, which you draw on to pay these costs. You'll still have to spend your own money on some of your medical care, but the tax break effectively gives you a 30% (or more) discount on every medical bill.
- *Do the math with your mate.* If you and your spouse are both offered insurance through your jobs, the best bet is to sit down with a calculator and figure out the most cost-effective approach. Sometimes putting the whole family under one policy is the best plan. Sometimes you are better off if you each go it alone. But don't bother with double coverage (where you get covered by two policies, one from your workplace and one from your mate's). Insurance is expensive enough, so there's no point in paying twice.

### *If you don't have health insurance*

C'mon, don't look away. *Everyone* needs health insurance. Young or old, healthy or sick, it's just one of those things you need to have so that you can get the care you need—without going broke—in case you get really sick. Today it doesn't take a major bout of cancer to wipe you out financially. Without insurance, even an appendectomy or a slipped disc could put you in the hole for years.

You also need health insurance so you can get the best possible care. Researchers have found that if you get seriously ill, you are actually more likely to die from your illness if you are uninsured. It is no fun to

think about, but the truth is that health insurance is one of the best investments you can make in yourself. So here are the answers to the top two excuses for living without health insurance:

*1. I'm healthy.* "I hardly ever get sick." "I never go to the doctor anyway." It has its variations, but "I'm healthy" is the number one excuse for not having health insurance.

Get real! Saying you're too healthy to need health insurance is like saying "I haven't been run over by a car yet, so I don't need to look both ways when I cross the street." Just because you're healthy today is no guarantee that you'll be healthy tomorrow.

But you already knew that. So here is something you may not have given much thought to: If you're healthy, then there is good news! Health insurance will be a lot cheaper for you. In fact, a healthy adult can get a high-deductible policy (which will protect you in the event of serious illness) for as little as $70 a month in some areas. So there is no excuse for not having it.

*2. It costs too much.* You are right. Health insurance *is* ridiculously expensive, and it is hard to find a bargain. But *it's not as expensive as you think.* How do we know? Because the smartest researchers around have found that people nearly always believe that health insurance costs more than it actually does. Why? *Because most people never bother to get an actual quote.* They just assume health insurance costs too much, and they give up before they start.

So here comes your assignment (you knew this was coming): If you don't have health insurance, find a couple of brokers in the phone book and get some quotes.

Here are a few tips for buying health insurance that won't cost more than the Trump Tower.

- *Hold on tight to COBRA (at least for a while).* If you leave your job, sign up for COBRA benefits immediately so you can stay on your company's health insurance policy. If you have an ongoing medical condition, COBRA may be your best long-term bet, since there is no medical prescreening and preexisting conditions are covered. If you're generally healthy, start shopping for a less expensive plan as soon as you can, but stick with COBRA in the meantime. You will get a better deal on your next policy if you can show that you had uninterrupted coverage.



- *Go with a high deductible.* High-deductible policies are generally a *lot* cheaper, because the insurance company doesn't have to pay out every time you catch a sniffle. The deductibles can get pretty steep ($2000 and higher), but you'll be covered if you face a serious illness. And you may be surprised at just how much money you can save. When I (Amelia) bought insurance for my family, I shifted from a fully loaded, zero-deductible plan to a high-deductible plan. When I did the math, I found that even *if* I got really sick and we had to pay the whole deductible (which is a pretty big *if,* since my family is generally healthy), we would still come out ahead—to the tune of $5000 a year!
- *Consider a no-frills plan.* Sure, it is better to have insurance that covers everything, but this is one of those places where some coverage is better than nothing. When push comes to shove, you can save a lot of money by opting for a policy that doesn't cover maternity, prescription drugs, or preventive care. The most important thing is for you to be covered if you become seriously ill.
- *If you have kids, check out Medicaid.* Many states offer free or reduced-cost insurance for families with moderate incomes and for people with certain disabilities. Medicaid isn't just for poor people: In California, for example, a family of four that earns $45,000 a year can get reduced-cost health coverage for their children. A quick search on the Internet will tell you whether you or your kids qualify. The Centers for Medicare and Medicaid Services is a good place to get started, at www.cms.hhs.gov. And if you've served in the military, be sure to check out the services at the VA, which offers high-quality care for little or no money. The benefits include prescription drugs, so even veterans who see private-care doctors may go to the VA for their prescriptions.
- *Try to buy insurance through a group.* Certain professional groups and unions offer preferred rates on health insurance to their members, so look around.
- *A discount card is no substitute for real insurance.* Medical discount cards are increasingly common, especially since Congress is now promoting them for the elderly. These cards can be a great way to save on

things like eye exams, prescription drugs, acupuncture, and dental checkups. But make no mistake, a discount card is only a supplement. *You still need real health insurance.*

- *Steer clear of "cancer insurance."* If you stumble upon a policy that covers only certain conditions (cancer is the most common), steer clear. You want a policy that will cover *all* medical problems, not just one or two.
- *Low annual limits spell trouble.* Watch out for scam insurance that has a ridiculously low annual cap, promising to cover everything *up to* $10,000 (or so). I (Amelia) once had lunch with a guy who sold this product. He actually laughed about the employers who offered this so their workers could "feel" like they had health insurance. A clove of garlic would provide about as much protection in the event of a serious illness, since you can blow through your benefits in a single day at the hospital. So check the annual cap. If it's under $1 million or so, keep looking.

## Disability Insurance

If you don't have disability insurance, this is another one that needs to become part of your basic package of protection. The fact is, there is a 1-in-4 chance that you will face a spell of disability before you reach retirement age. As if that isn't scary enough, this year more than 300,000 people without disability insurance will go bankrupt. So get covered! If your employer offers it, sign up. If you are shopping on your own, get a few quotes for disability insurance. You may never need it, but if you do, you'll be so glad you have it.

## Reshop the Child Care

If you are a working parent, child care may be the only purchase that seems even *more* absurdly expensive—and more sensitive—than your health insurance. We are both mothers, and we understand just how profoundly important it is to find the right fit for your child. We also understand how unthinkable it may seem to shop based on price. And yet, when you put all your big expenditures on the table, child care is too big to skip past.



Start by talking to other parents. Find out where they send their kids, how they like it—and what it costs. It may be a bit embarrassing to ask about price, but most parents are more than happy to share the information (and commiserate about how expensive it is!). Visit a few of the more cost-effective places. Be sure to look into a range of alternatives, like your church or synagogue, the YMCA, and even teaming up with other families. Child care costs vary widely from one neighborhood to the next, so consider going outside of your neighborhood. Check for a mile on either side of the route you drive to work, for example, to see if there is something good in another neighborhood. You may not relish the extra drive time, but for the right price, it may be worth it. And just like with your car insurance, don't forget to ask about discounts. Two kids? Church affiliation? Willingness to help out on the weekends? It may matter. And don't forget to claim your child care deduction when you file your taxes; it can save you big money.

You know in your heart, but it may help to hear it again: You don't have to spend a lot of money to be a good parent. When Amelia turned two, I (Elizabeth) put her in day care when I went back to school. The first arrangement was the most prestigious (and the most expensive) place in town. The day-care center cost us an arm and a leg, but it had beautiful equipment and a staff with advanced degrees, so I figured we couldn't go wrong. But Amelia was plagued by mysterious stomachaches, and she looked like a grim old lady every time I dropped her off—determined not to fuss, but clearly unhappy. After two months of this, I was desperate to find something else, but everyplace I looked was full or it smelled funny or it just didn't feel right. I began to get scared that I would never find anything and I would have to drop out of school. But the ninth place was charmed. Officially designated as a "play group" rather than a day care, it hadn't even made my list. And the facility was plain—just a couple of rooms in the back of a modest church. But the woman who ran the program was one in a million. Lively and full of hugs, Miss King had a way with kids. By the third week Amelia was squealing with eagerness before we had even reached the church parking lot. And here's the real irony: Not only was Amelia happy, the church play group cost about a third of what I had been spending at the fancy facility. Amelia thrived, and I learned a lesson—

a safe place, some crayons and paper, and a caregiver with a ready smile and a mountain of patience is all you need for magic to happen. And without the right person leading the show, all the equipment in the world won't make it happen. It is a lesson I carry with me today when I teach classes at Harvard Law School.

Ultimately, you may decide that keeping your child in the same day care is worth the extra money. But if you don't shop, you'll never know if there was a good alternative that would take a smaller bite out of your paycheck—while still taking good care of your kids.

**4. Consider radical surgery**

You've taken the easy steps, and even a few not-so-easy steps, and we hope you've reached your goal. But if your Must-Haves still aren't approaching the 50% mark, then it's time to think honestly about some really big changes, changes like taking a new job or moving to a different place. We know that these can be difficult—even painful—changes in your life. And yet we also know that major change may be your only path to real financial peace.

When It's Time for Another Job

Jobs? We've talked about cutting expenses, but of course there are two ways to get your money into balance—you can cut your costs *or* increase your income. There are no hard-and-fast rules on what is right for your situation. Maybe you just need to do a little hunting and find work that pays better. Maybe you need to let go of a foundering business and get a traditional job. Or maybe you need to get more education so you can get the next promotion. The key here is to get it out in the open: Take a long look at your options. Ask yourself the tough question: Do you really, really need more income?

- *Has it been more than two years since you checked out what you would earn in a similar job at a different company?* There is a basic rule in business: Always know what your assets are worth. The same holds true about your job. Know what you are worth to an employer. And make sure you get every penny of it. If it has been more than two years since you checked out what you could earn at a different company, then it is time to do a little hunting. The information you gather may surprise you.

You already have a job, so you can be choosy. Take your time to look around. Check out the online job postings, visit a couple of placement agencies, and tell all your friends that you'd like to find something that pays a little better. You'll find out pretty fast if there is a better job out there.



- *Could you pick up extra part-time work?* This is a great way to turn work experience—and even your hobbies—into extra cash. Do you have teaching experience, or a degree in English or math? You can make good money tutoring kids after school. Are you at home taking care of your children? Take care of the neighbors' kids too. Typing, gardening, hanging wallpaper, taking photographs, and setting up home computers are just a few skills that can translate into extra money.
- *Is it time for more training?* If a degree or specialized training is necessary for you to get a fatter paycheck, then sign yourself up! Getting a degree can be expensive, and studying after-hours can be tiring. But this is the rest of your life we're talking about, and you'll get a payoff for a long, long time.
- *Is it time to go to work for someone else?* There is nothing quite like working for yourself. We've done it, and we know the joy of making your first sale—and the agony of not making the profits you hoped for. It is hard to admit, but even if you work your fanny off, many small businesses don't work out. There is no shame in throwing in the towel and going back to a traditional job. Think about the hours you put in, and ask yourself: Could you earn more at a regular job? Keep in mind, it doesn't have to be forever. You can always use that steady paycheck to rebuild your savings until you can launch the *next* big venture.
- *Are you or your spouse able to work, but not drawing a paycheck?* Maybe you promised your wife she could stay home with the kids when you got married. Maybe you offered to support the family while your husband launched a new business. Maybe you planned to find a new job once the baby got a little older, but somehow it just never happened. A family that is financially strapped and yet has an able-bodied adult who isn't even looking for a job, is, 9 times out of 10, a family that

is living out the consequences of a decision that *once* made sense—but no longer works.

So be honest with each other. If you just can't afford a stay-at-home spouse, then say so. Once again, it isn't all-or-nothing. You may find a part-time job that will cover some bills *and* give you plenty of time for life outside of work. You may decide to work for six months or a year, just long enough for your family to pay off some major debts. You may job-share or work as an on-call temp. The point is to get out there and look—and to be creative.

### When It's Time to Move

Your house is special. Moving is expensive. Your whole life will change if you can't wave hello to Mrs. Wysong every morning and sit on the back deck in the evening. There are a lot of very good reasons not to move. And yet you need that moment of cold, hard honesty: If you are living in a home you can't afford, you stand to lose that home and everything else you have built up in your life. The fact is that home foreclosures have tripled in less than 20 years. You want to be prosperous for life, not another crash statistic. If your Must-Haves are still way too high, and taking a roommate or getting a higher-paying job just isn't in the cards, then consider moving someplace more affordable. Getting out from under that heavy house payment may be your best chance for building a lifetime of riches.

#### *Is it time to move?*

First, consider your circumstances. If you are expecting a major change in the next year or two, then it may be sensible to stay put a little longer. For example, if you plan to get married or shift to another job, then your housing needs (and your household income) may change. Likewise, if you are planning to move to another city in the next year, don't blow your money on moving twice. But if your situation is pretty stable—if you plan to stay in the same job, the same city, the same relationship (or no relationship)—then it may be time to call the moving van.



Next, consider your community. You may be fixated on a single area, but there may be decent housing—and decent neighbors—in less expensive areas. The test is not "Where do I most want to live?" The test is "Where can I live safely?" Check the listings and get in the car and drive around. Once again, you might be surprised.

| CHECKLIST: IS IT TIME TO MOVE? | |
|---|---|
| **Money Balance** | |
| Are your total Must-Have costs (including housing) significantly higher than 50% (after you've made as many cuts as possible)? | Yes/No |
| **Future Plans** | |
| Is your income likely to stay about the same or drop over the next few years (i.e., no big raise or promotion on the horizon)? | Yes/No |
| Are you planning to stay in the same city for the next several years? | Yes/No |
| Is it likely that your life will be pretty stable over the next few years, with no major changes (such as a new marriage or job)? | Yes/No |
| **Your Area** | |
| Is it possible to live in a less expensive home or apartment in your area without compromising your safety and well-being? | Yes/No |

If you answered yes to all of these questions, then moving to a less expensive place may be your best option.

• *Should the move be temporary?* If selling your home sounds too difficult—or just too expensive, once you add in the agent fees—maybe there is another option: Consider a temporary move. You could rent out your home and move into a less expensive apartment—just for a while. We have a friend who is a professor at a business school. His family had a huge financial setback, so he rented out his big house with a pool and moved with his wife and teenage daughter into a two-bedroom condo for two years. It was enough to get them back on their feet. He didn't feel embarrassed; he felt smart and careful.

If the rental value of your home is more than the monthly mortgage payment, you could come out ahead financially. You could hold on to your home while salvaging your financial stability. And if your circumstances change in a year or two, you could move back in.

• *What if you have kids in public school?* Be sure to investigate all your options before you rule out a move. Many school districts will permit students to remain enrolled even if the family moves to another district. That may involve extra driving, but if you are cutting the house payment sharply, it may be worth it. And check out whether any of the schools in your area offer open enrollment or magnet programs. This can be a great way to get a good education for your kids without paying an arm and a leg to live in a prestigious district. Don't rely on real estate agents for information; call the school district direct. You might be pleasantly surprised.

• *What about family?* Is this the time to move back in with your folks, or crash on your sister's couch for a while? Family can help, and often they have more space than cash to offer. If you are a grown-up about it—if you try not to impose, if you recognize what a big benefit they are bestowing on you—this could be a turning point in your life. Pay something to your hosts, pitch in with the yard work and the dishes, and put every spare penny into savings. Set a timetable to get back into your own place. This can be a very difficult step, but it may be just what you need to get the rest of your financial future in balance.

Remember, it doesn't have to be forever. There will *always* be bigger apartments and nicer homes available. If your circumstances change, you can move into a nicer place when the time is right. And in the meantime, you can stay safe, pay your bills, and rest easy.



## Little Cuts, Big Cuts: Add Up Your Total

It is time, now, to add up all your cuts and see where you stand.

### WORKSHEET 6. REVISED MUST-HAVE EXPENSES

**Total Must-Have Expenses Before Cuts**

Enter your monthly Must-Have Expenses *before* you made any cuts (from p. 39) $ ________

**Cuts in Expenses**

List each cut and enter your monthly savings (if you saved from a bill you pay annually, like your car insurance, just divide your savings by 12)

1. ______________________ $ ________
2. ______________________ $ ________
3. ______________________ $ ________
4. ______________________ $ ________
5. ______________________ $ ________
6. ______________________ $ ________
7. ______________________ + $ ________

Total cuts in monthly Must-Have expenses = $ ________

**Revised Must-Have Expenses**

Revised Must-Have Expenses = Total Must-Have Expenses Before Cuts – Total Cuts in Expenses $ ________

The savings you made here will help you lay a foundation for the rest of your spending plan. You will come back to these numbers again and again as you work with your Wants and Savings. And you will be so glad of all the progress you made here. So give yourself a big pat on the back for every cut on this list—you deserve it!

### When It's Okay to Go Higher than 50%

What if you've squeezed, you've shopped, you've pressed and pulled, and you are still not there? Is it ever okay for your money to be out of balance?

There may be times when Must-Haves need to climb above 50% for a while:

- When a new baby comes
- When a loved one faces a serious illness
- When you go back to school
- When you lose your job
- When you launch a new business

Notice something special about this list. What do all these things have in common? They are temporary. *All Your Worth* is designed to give you enough flexibility to manage life's ups and downs, so that you don't have to worry if things go a little awry. It is okay for your money to get a little off-balance when it's temporary.

But when you are working steadily, when everyone is healthy, when everything is *normal*, your Must-Haves should not float above the 50% mark. If they do, the warning flags should be flying.

Who decides whether the reason your Must-Haves are out of balance is only temporary? You do. But we urge you to be honest with yourself. A job that just doesn't pay as much as you're worth does not qualify as temporary—even if you are planning to look for a better job sometime in the future. Divorce isn't temporary. An expensive home mortgage and a big health insurance bill aren't on the temporary list either.



If you have a temporary circumstance that makes it necessary to keep your money out of balance for a while, here are the steps you should take to stay safe:

- *Build a super-strong safety net.* You have opted for life on the high wire, so you need a really, really strong safety net. Savings in the bank is your best line of defense in case anything goes wrong.

This means you still need to make room for Savings. Pay your Must-Haves first, then carve out 20% for Savings. *Then* you can put the remainder toward your Wants.

This probably means that you will be scrimping on the Wants for a while. No vacations, and not much in the way of fine dining or shopping for new clothes. We know that's not much fun, but putting Savings higher on your list is the best possible way to keep yourself safe and start building toward a better future.

- *Set a goal for when you will get your Must-Haves balanced.* Going heavy on the Must-Haves may be the right decision, *for now.* But it doesn't have to last forever.

Try setting a goal for when you are going to be out of the woods. Maybe you can get your money into balance in a year, when the car is paid off. Maybe balance will come in two years, when your youngest child starts full-day kindergarten. Maybe you can get your money into balance (or at least get it a lot closer) when the student loan is paid off next year, or when you move to the next pay grade at work in eighteen months. The point here is to have a clear endpoint in mind, a time when you can finally take a much-needed sigh of relief, and aim toward keeping your money balanced for good.

### When to Revisit, When to Relax

It's taken some work to get your Must-Haves in balance, but now it's time for the good news: *You don't have to worry about this for a while.* In general, you should reevaluate your Must-Haves every two years.

Why revisit? Because you just never know. Maybe you will qualify for a better mortgage. Maybe you will be eligible for cheaper car insurance. Maybe a new day-care facility will open up. Maybe there is a bet-

ter job out there, just waiting for you to apply. The only way to find out is to get out there and look around. Rest assured that every time you check, it gets a little easier, because you've learned the tricks and you know where to look.

You also want to recheck your Must-Haves—and your overall financial balance—whenever you have a major change such as:

- Change of job
- Marriage, birth, or other change in family structure
- Move to a different home
- Significant change in income
- Significant change in expenses (such as sending a child to college)
- Before you make a major purchase (such as a house or car)

When you begin to get your Must-Haves into balance, you have a new way of thinking about your money. You have an easy way to judge whether you can afford something, which can make the big decisions a whole lot easier—and a whole lot less stressful. No more chewing your fingernails about whether the new car will bust your budget or fit in just fine; now you *know.* If you can keep the monthly Must-Haves under 50% the purchase is okay; if not, it's not. That simple.

Balancing your money also makes it easier for you to plan around big changes—a new job, move to a new city, marriage, a new baby—and to integrate them into your financial plan. When you have a clear goal and a plan to get there, you can ease up on the money worries. This means you can focus your real energy on the new job, the new baby, and all the other important things, without wringing your hands over money. In other words, balance can let you relax about money, so you can focus on *life.*

## Increasing Your Worth

The task in front of you may be challenging, and you may still wrestle some tough choices. But remember this: Nothing here is impossible. You have lots of options, and you can pursue the ones that work best



for you. You are smart enough to look out for your future and you are energetic enough to work hard for what you want. That means you are also smart and energetic enough to get your money in balance.

Significant change is always tough. Shoot, if it were easy, you would have done it already. But here's the kicker: Your hard work *will* pay off. Getting your Must-Have expenses in balance builds the strongest possible foundation for a future of worry-free living and lifelong wealth-creation. And once it is all over—once you have done the hard work, once you are paying your bills without worry, once you are enjoying your fun money and watching your dreams come closer—your worth will grow in many ways, and you will forever be glad you did it.