Successful Family Finances

By Chuck Curtiss, President of My Financial Team, Inc.

Are you keeping up with the Jones's? Did you avoid their financial problems in 2004? Get a firm grip on your checkbook, and see to it that at the end of 2005 you have less debt than you do today.

I've been a graduate student, a college instructor, and a consultant. My best lessons rarely come from textbooks. I've learned the most about family finances from The University of Real Life. This year you too can get an advanced degree in directing your financial future.

How Deep Are My Pockets?

The Wall Street Journal reported that 70% percent of Americans live paycheck to paycheck. Dave Ramsey, radio talk show host, and author of "The Total Money Makeover", reports that this percentage rises to 80% in affluent neighborhoods.

Do you say: "I just don't have enough money", and so you buy stuff on credit? Do you get enough money later to break even, and more to pay off your credit cards? Or do you go farther into debt, paying more and more interest each month at the same time you pay for older and older purchases?

Would a raise make the difference?

Most people think a raise of about 30% would make it possible for them to get off the treadmill. Yet many people who do get raises try spending those same dollars more than once (even before the in increase in income taxes).

Is it better to live on what I make, or on what I wish I made?

If you live on what you wish you made, you are on the road to misery. If you live on what you make (or less), you are on the road to peace and contentment. The ironic thing is that most people outside the USA (many of whom are poorer than 95% of Americans) understand this.

Researcher Ronald Ingelhart of The University of Michigan studied 170,000 people in sixteen nations and found that the correlation between income and happiness, worldwide, is "surprisingly weak".

Of course you need food, shelter, and clothing. But you don't need a fancy dinner out every weekend, a large house, and expensive fashions.

The good news is that if you can afford to buy nice things without messing up your life, you may not need to be reading this article. The bad news is that even if you can afford them, they may not bring you happiness.

Psychologist David G. Myers recently reported that the average income of Americans is more than double what it was in 1957 (adjusted for inflation). Yet the number of Americans who say they are 'very happy' declined over that same period, and divorce and teen suicide rates nearly doubled.

So what can I do?

Fix your situation. Most of us did not get into this situation over night. It will take a planned effort to get out of it. A spending plan or 'budget' can help you lighten your load.

If you are not dead yet, it's not too late to develop a budget that can help you change your financial future.

Isn't Budgeting Ugly?

Not spending more than you bring home can seem less than encouraging. When it comes to deciding whether a dollar should go for gas, groceries, or a movie, the answer may be painful.

But budgeting does not look at any one dollar. Given the bacon you bring home each month, budgeting helps determine where each piece goes, and helps reduce one's thinking "if only I had a few more pieces".

For most of us the problem is not that we bring home too little money. The problem is that we spend more than we have.

There is great freedom, once you know that you have X-dollars to spend on clothes, in going out and using those dollars as a smart shopper to get the best deals on the items you most need. Then, when that money is gone for this month, you go home and model your great finds.

How do I develop a budget?

To find out what you spend money on, review several months of your checkbook register, cash receipts and credit card bills.

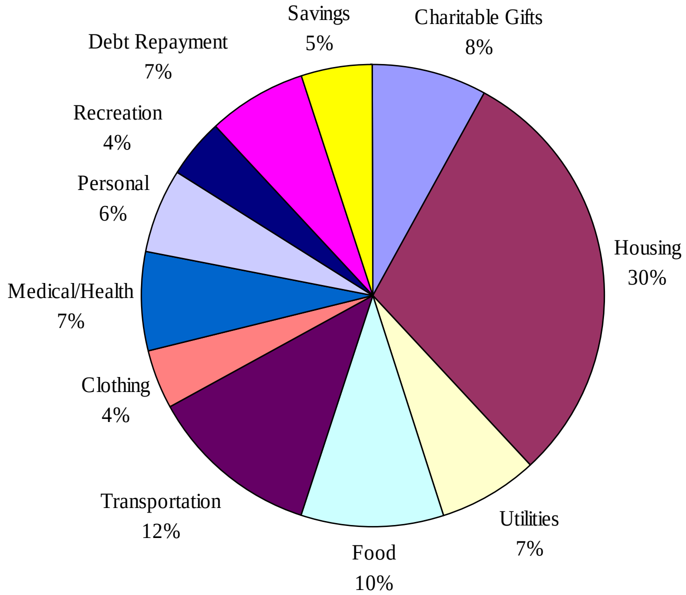
Your ability to balance your books is partly an issue of maintaining or increasing your income, and partly an issue of how well you can identify unnecessary expenses to eliminate.

For now, don't plan to increase your income to match your current spending. Figure out how you can live on what you currently make (or less). Use raises, or a second job, to pay down debt rather than buy more stuff.

Pay off the smallest debt first. When you get that debt paid off, continue to use that same amount of money to increase your payments on the next smallest debt. By continuing this practice, your payments on remaining debts will get larger and larger, and you will owe less and less.

After you pay off your credit cards, second mortgage, vehicle, recreation and vacation loans, you might allow yourself to take a small piece of those payment amounts to increase your expendable income. But use most of it to pay down your mortgage. Early in your mortgage cycle the vast majority of your payment is interest. Every extra

Percentages of Take Home Pay



dollar you pay reduces your principal due, and therefore your future interest payments. The equivalent of a thirteenth payment each year can take nearly ten years off a thirty-year mortgage.

Don't stop giving during this period of readjustment. Donating to community organizations, religious institutions, and world relief provides a chance to prove to yourself that you control your money -- rather than your money controlling you. Even if you have to miss a meal or cancel a trip to save enough to give, you likely will be a healthier, happier person for the effort.

What would 'normal' family budget categories and approximate amounts look like?

There is no one clear answer for everyone. Based on the real-life experience of many Americans, the pie chart above represents approximate percentages. Spending well in excess of these percentages in any one category could bury you in a situation that you can not dig out of without major life changes.

Your situation is unique. You will need to identify the size of each pie piece that will work for you. You may be able to consistently save in one area, and allow that additional percentage to be used elsewhere.

After you develop a budget, try it for a couple of months. If you do as well as most budgeters, you will find that the first draft just doesn't work. Don't give up yet. Make the changes you think you need, again focusing on the expense side unless the income side changes with a high likelihood of long-term continuation.

If I stick with this, what will I gain?

Most of us have never experienced financial freedom. Can you imagine buying a car with cash and not having to worry about 60 months of payments? Can you imagine taking a vacation with money that you have saved for that purpose, and not have to fear the credit card bill when you get home? Can you imagine choosing a job that you enjoy, rather than one that pays better? Can you imagine teaching your children these lessons while they are in junior high or high school, rather than having them come to you to bail them out after they graduate from college with tens of thousands of dollars in debt?

Winston Churchill once said, "The only thing we have to fear is fear itself". By facing your finances today, you can work toward that point where you go to sleep every night, and wake up every morning free of financial fear.

DISCLAIMER: I do not provide investment advice, estate planning, debt reconciliation, banking or brokerage services. My desire in writing this article is to see healthier families in our region.

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