

Saving Grace: Eight (Surprisingly Painless) Steps to Bucking Society's Trend and Achieving Financial Sanity This Year

Just because the rest of America is spending madly doesn't mean you have to follow suit. Diane McCurdy explains how to rein in unhealthy financial habits, cut the fat out of your budget, save for retirement—and yes, have some fun along the way.

(March 2007)—Where did your money go last year? Did you buy a shiny new car? The latest and greatest flat screen TV? Restaurant lunches every day of the week? Or did you tuck a healthy amount away into a savings account? If you answered the first three items in the affirmative and hung your head when you get to the last one, well, you're not alone. Many Americans are spending more than they are bringing in. In fact, The Commerce Department has reported that in 2006, our personal savings rate fell to -1 (yes, that's *negative one*) percent—the lowest level since the Great Depression more than seven decades ago.

The latest savings rate reveals that not only are Americans failing to save any money year to year, they are ending the year in debt, owing money to credit card companies and lenders. Obviously, this is not good news. But Diane McCurdy, author of *How Much Is Enough? Balancing Today's Needs with Tomorrow's Retirement Goals* (Wiley, 2005, ISBN: 0-471-73871-9, \$14.95), says you can choose not to live this way—starting right now.

How? You can make a budget—and the process is not nearly as painful as it sounds. In fact, creating one will not only offer instant peace of mind, it will help you get what you really want from your financial life.

“Budgets are a practical pathway to helping you realize your dreams,” says McCurdy. “Creating one might even help you get the new car, vacation, or flat screen TV sooner, without causing you financial distress! You can't get financial freedom unless you organize your cash flow—understanding that a wish list is as much a priority as recording your purchases.”

Perhaps the word “budget” and the word “wish list” feel like polar opposites to you. Not to McCurdy. She is a big believer in the life-affirming power of budgets. And her book—which teaches readers how to delve into their money attitudes, identify their personal pitfalls, separate their wants from their needs, and chart out a realistic financial road map—makes it clear that if you don't embrace the B-word, your money will *never* work for you.

“If you don't control your money, it will control you,” she asserts. “It will cause strife in your marriage, crush you under a load of debt, and force you to toil your life—and maybe your

health—away to pay off that mountain of bills. When you look at creating a budget that way, you'll see that it's not a straightjacket at all. In fact, it liberates you.”

Once you get serious about getting a handle on your finances, the process is surprisingly easy. You'll want to read *How Much Is Enough?* for the complete picture, but the following tips will get you started:

Step 1: Don't call it a *budget*. Call it a *cash flow statement*. Taking this first simple step, which is nothing more than making a mental and verbal shift, can change your life. Here's why: Like the word *diet*, “budget” has gotten a bad rap. It suggests deprivation. So change your terminology, says McCurdy. “A *cash flow statement* is actually empowering,” she says. “It suggests that your life can be run like a business. And it can be: a profitable and deeply rewarding business. Your cash flow statement is nothing more than a tool for helping you get what you really want out of life—your dream home or a family trip to Europe or an early retirement—rather than watching your money trickle away one \$3 latte at a time.”

Step 2: Realize that, cliché as it sounds, today is the first day of the rest of your life. And for the rest of your life you are going to have more control over what you spend. So, starting next month, write down every cent you spend for the month. That's right. Record every gallon of milk, every tank of gas, every daycare check, every sweater or book or DVD that you “impulse buy.” Write them down every day so you won't forget. Try to live “normally,” rather than being more conservative than usual just because you're doing this exercise. If you're married, have your spouse record all of his/her expenditures as well. Then, at the end of the month, you simply add up all the numbers. “For many people, this is the scary part,” notes McCurdy. “It's almost as though if they don't total up the numbers they don't have to face the awful truth.”

Oh, and if you want to postpone this exercise because the month turns out not to be a “typical” month—you know, because you had to put new tires on the car or take the dog to the emergency vet when it got the cheese wrapper stuck in its throat—forget it. *No* month is “typical.” Any good budget (excuse me, cash flow statement) accounts for unexpected expenses.

Step 3: Use McCurdy's nifty Cash Flow Statement form. McCurdy has made your job easier by providing the form in her book and on her website www.how-much-is-enough.com. The form has columns for you and your spouse and it covers pretty much everything. It also reminds you about annual expenditures like property tax, holiday gifts, vacations, and so forth; you just divide the annual amount by 12 and enter the figure for the month.

Step 4: Figure out your Spending “Big Picture.” Here's what you do: Calculate your total expenses and subtract them from your monthly income. If it turns out you are living within your means but still having trouble saving, the Cash Flow Statement form will show you where it's hiding. If you're spending more than you're earning—a very common situation, by the way—it will tell you why. “Basically, the Cash Flow Statement will show where the money needs to go versus where it's going now,” says McCurdy. “Knowledge is power.”

Step 5: Save a quick \$5000 a year. It's amazing how much money people spend almost unconsciously. For instance, it's not hard at all to spend \$50 a week or more on lunches. If both you and your spouse buy your lunch daily, that adds up to \$400 a month—or \$4,800 a year! What if you both carried your lunches instead? You could probably get by with spending half of that if you took dinner leftovers to work most days or simply brown-bagged it with a sandwich and a piece of fruit.

“There are all kinds of places to cut corners,” says McCurdy. “Most people have gym memberships they don't use, subscriptions to magazines they don't have time to read, 100 cable channels they don't watch. Maybe you could dramatically reduce your gasoline bill by carpooling, or by trading in your expensive gas guzzler for a more modest pre-owned economy car. Believe me, most people have no idea how much money they waste until they sit down and make out a budget.”

Step 6: Start paying yourself and save on taxes at the same time! You can do both of these things if you stop neglecting the retirement issue. It's true that retirement is a complicated subject and everyone's needs are different. Certainly, helping you figure out how much you're going to need is far beyond the scope of this article. But *do* make this the year you tackle the dreaded subject and start saving for tomorrow, urges McCurdy. (Her book guides you through the process.) “It's pretty easy to procrastinate on getting a handle on retirement,” she admits. “Most people have a touch of the Scarlett O'Hara mentality. They prefer to think about it tomorrow. But crunching the numbers is the only way to know if your current savings will get you there.”

By the way, there's another benefit to focusing on retirement right now: with tax time looming, you might enjoy putting the tax man on a diet by fattening up your retirement savings. “It's best to contribute the maximum to your retirement accounts,” says McCurdy. “But even if you don't have enough money to sock away a big chunk right now, you can at least start planning to do it before Tax Time 2008 rolls around.”

Step 7: Put a carrot at the end of the stick by creating a “wish list.” While McCurdy emphasizes planning for tomorrow, she believes just as fervently in enjoying some money today. That's why she insists that you sit down with your family and come up with a wish list. This is your “fun money.” Maybe you want a cruise to the Bahamas, while your spouse wants hardwood flooring for the house. Neither of these goals may be achieved this year, but that's okay. It's fine to plan several years in advance. The point is to figure out what you really, really want and start putting your money toward *that*, instead of dribbling it away on things you don't really care about.

Here's where the different “money attitudes” McCurdy writes about—she divides people into Spenders, Savers, Givers, and Builders—really assert themselves. “Savers may actually be reluctant to create a wish list because it seems too ‘frivolous,’ while Spenders may chafe at giving up the ‘high’ they get from spontaneous shopping sprees,” she says. “I would remind Savers that they deserve a reward now and then for all their discipline, and I would urge Spenders to include on their wish list a couple of unspecified shopping sprees with specified spending limits.”

Step 8: Stay the course with the 48-Hour Rule. The best laid plans have a way of crumbling in the face of their worst enemy: the impulse buy. This is particularly true if you're a Spender. McCurdy suggests that you make it a policy that when you see something you want, you'll wait 48 hours before buying it. "My clients who do this tell me that 90 percent of the time they've forgotten about it two days later," she writes in her book. "Sellers make products desirable by indicating that they won't be available at this price forever, or that the quantities are limited. It's an old trick, but it gets hands reaching for wallets every time. Keep in mind that a bargain is a bargain only when you save money on something you planned to buy in the first place."

If you try this financial makeover and fail, don't give up. McCurdy says it takes most people two or three attempts before their new budget finally sticks.

"This stuff is not rocket science," she says. "We all know, intellectually, what we need to do to build financial security, just as we know what we need to do to lose weight. The problem isn't with our brains; it's with our emotions. We have all sorts of emotional issues tied up in money, and we let those issues override our common sense.

"But really, money is just a tool," adds McCurdy. "That's what it is and that's *all* it is. Why not make 2007 the year that you finally learn how to use that tool to help shape the kind of life you want to live?"

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About the Author:

Diane McCurdy, CFP, is one of the most respected and visible financial planners in North America. In 1982 Diane established McCurdy Financial Planning, Inc.—becoming a full-service "financial planner" long before the term became the industry's designation. Simply, Diane believes her clients need financial advice in all aspects of their lives. Diane's passion for her clients' success has grown into a financial program that has helped thousands of clients attain their goals. Her quest for "the number" culminated in her authoring *How Much Is Enough?*—a book written to help almost anyone reach financial peace of mind!

Diane's remarkable program for financial success makes her a highly sought after speaker, commentator, and author. She has given countless radio, television, newspaper, and magazine interviews and has addressed many audiences as a keynote speaker throughout the United States, Canada, and Mexico. Recently she has been interviewed by *CNN Today*, *CNBC Asia*, *FOX TV*, *MSN Money*, *Forbes*, *ABC News*, *USA Today*, *Fidelity Investments*, and *Family Circle*, to name just a few. Diane gives of her time and energy to many charitable organizations and industry associations and is a constant achiever of industry awards.

About the Book:

How Much Is Enough? Balancing Today's Needs with Tomorrow's Retirement Goals (Wiley, 2005, ISBN: 0-471-73871-9, \$14.95) is available at bookstores nationwide, major online booksellers, or direct from the publisher by calling 800-225-5945. In Canada, call 800-567-4797.

For more information, please visit www.how-much-is-enough.com.

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