

# Making Do between Paychecks

Many hardworking Americans spend every cent they earn—if not more. Living close to the edge is, for many, a way of life that they feel helpless to change. The solution for some is to take on second jobs to help pay the bills and support their lifestyles, though this may be a difficult if not impossible option for others. Educating yourself about managing the money you have and how to use it efficiently is another alternative.

Is living from paycheck to paycheck a cycle that can't be broken? The answer is no. Is it ever possible to get ahead financially? The answer is yes. It takes commitment and fortitude, but if you face up to your situation, then frame a plan to change it, you can, over time, fix it. Here's how one couple did just this.

## Saving a Dream

Luis and Angie managed to squeak by every month. Luis worked for a landscaping company and Angie was a dental assistant at a busy clinic. They had met and married when they were in their mid-20s and were looking forward to starting a family soon—if only they could figure out how to afford it.

They simply didn't know where to start. It seemed like every penny they earned paid their bills and their living expenses, with no room to spare. They couldn't figure out how to afford a puppy, much less a baby. Yet all their friends around them seemed to be having children, buying starter homes, driving around in late model cars. "What are we doing wrong?" they wondered.

One weekend, Angie's older sister Rosie came for a visit. She had studied accounting in high school and worked as a bookkeeper for a shipping company. "Let me take a look at your finances," she suggested. Although Luis was at first reluctant to open up what he considered highly personal information, he agreed to sit down with her. When she asked to see the couple's bank statements, they laughed. "Are you kidding? We don't even have a bank account!" Rosie tried to contain her surprise as she learned that Luis and Angie used a check-cashing service to cash their paychecks and purchase money orders to pay their basic bills.

"Well, at least you're starting out with no debts," Rosie said. "But no savings or investments either," added Angie.

With Rosie's guidance, the couple drew up a list of their inflows and outflows and looked at their financial profile for the first time. Their combined household annual income was about \$50,000. Housing costs were low, with rent just one-quarter of their monthly income. Rosie explained that debt and housing are typically the expense categories where people find themselves over committed. In Luis and Angie's case, these areas were under control. What they needed was to figure out how to squeeze more mileage out of their income by making smart lifestyle changes.

Rosie thought it might help if Luis and Angie tried to identify ways that they could reduce expenses by keeping better track of their money. Although they knew how much each earned every week and what they spent on rent, phones, food, and transportation, she felt the rest was falling between the cracks. She urged them strongly to open a checking account, not just because the check cashing services they used were expensive, but also because a bank account offered opportunities to see where their money was going. As an added bonus, their paychecks could be deposited directly. If they satisfied the minimum balance requirement, they might even avoid monthly and per-check fees. She also

thought they should look into obtaining a credit card in order to establish a credit history.

Luis told Rosie they would try her program. He and Angie chose to open an account at the local branch of a large bank that was advertising a promotion for free checking. Over the next few weeks, they figured out how to write checks and how to balance their checkbook. They obtained a debit card and started to use it to pay for groceries because they felt it was safer than cash and easier to track on the monthly statement, which they carefully matched up to their receipts. They also learned how to electronically transfer money from the checking account to a savings account that they had also opened. In fact, they pledged that as soon as their paychecks were deposited they were going to take a certain amount and move it right into savings.

Over the phone, Rosie explained how they should use their monthly statements to closely track their expenditures. She said they should think of each month's statement as more than a record to document what checks they had written—they should consider it as a tool to analyze and control spending. She suggested they sit down every month to review these statements and try to brainstorm new ways to put away savings.

Within six months of opening their bank account, Luis and Angie found that they were not only paying all their bills, they were much more conscious and conscientious about their spending. With the monthly bank paperwork, they could now account for their money, and they were able to better regulate their purchases. To their surprise and delight, the money accumulated in savings topped \$1,000. When they called Rosie to report this momentous event, she offered to help them build a more formal budget and explain some principles of long-term financial planning. Luis immediately extended an invitation for Rosie to come and visit again. After all, thanks to her, their financial outlook was certainly “rosier.”

## **Commonsense Considerations**

When it comes to saving money, every little bit counts. Minor reductions in everyday expenditures can make a big difference. Like Luis and Angie, you too can uncover ways to be more efficient with your money

- Automatic payment is a simple process that can be set up online or over the phone with a bank representative. Using it for recurrent bills saves time and money and helps avoid costly late fees or interest charges.
- Home lunch is invariably less expensive than take out; take out is less expensive than sit-down restaurant service. “Brown bagging” is a great way to save money. So is cutting down on meals eaten out. Challenge yourself to find interesting, more economical restaurants. You could also make a resolution to skip dessert and coffee for a year and see the difference this makes in your wallet (and your waistline).
- Try putting yourself on a “latte diet.” Decide how much you can afford to spend per month on designer coffee and buy a gift card for that exact amount. Or just brew your favorite brand of coffeehouse coffee—it’s much cheaper per cup than purchasing it at the cafe.
- Carefully examine monthly phone, cable, and Internet bills. Would your Internet service be less expensive if it were bundled with your cable or telephone and wireless lines? Do you need high speed or could you be more patient and save money? Do you have a shared family plan where there’s no charge between callers subscribing to the same service provider? Stay on top of new plans and offers.
- It’s good economy—not to mention sound ecology—to turn off lights and minimize air-conditioning and heating. Call your utility company to see if they offer a free audit to help customers cut costs. Make house rules about using appliances—like making sure the dishwasher is full before it is turned on and that lights are always off in unoccupied rooms.
- Target transportation for reducing spending. Is carpooling a possibility? Are there public transportation alternatives? Do you know exactly how much it costs you to drive your car? Add it up—then figure out where to cut.
- Examine bills (including a monthly line-by-line review of credit cards) and eliminate expenses like phone service features you don’t use, gym memberships you don’t utilize, or subscriptions to magazines that you don’t have time to read.
- Brainstorm with family and friends; check money-saving tips in local newspapers and online; and set goals and stick to them.

## Educating Yourself Out of Debt

Allan's stomach turned upside down every time the telephone rang. He never answered it, because it was usually somebody calling about a debt. Allan had a wonderful wife, two great kids, and a good job that afforded him a decent living. But there was always something competing for his money, whether it was the electric bill or the roof that needed to be replaced or hockey equipment for his boys. It was a constant juggling act.

Allan lay sleepless in bed at night, his mind always returning to the fact that he needed to make more money. It wasn't any one problem that had caused him to fall behind in his payments; it was all the everyday expenses that had dragged him to his current state of delinquency.

Then one day, a friend called to invite Allan to a financial education seminar. Normally this would have been the kind of invitation that Allan would turn down without a thought, but recalling the previous evening's sleeplessness, he accepted. Although he walked in doubting he would really learn anything, he walked out with nothing less than an intense desire to learn more.

The seminar was the first time Allan actually ever had formal instruction in money management. The speakers talked about using time and consistency in investing, how to eliminate debt, and how to defer taxes. They suggested strategies and took questions from the audience that clarified aspects of managing money. They pointed out how important it is to pay yourself first—put money away from every paycheck before tackling the bills. They talked about keeping a mortgage affordable and staying on top of rates. They summarized ways to defer taxes with retirement accounts and discussed how to establish an emergency fund—something Allan had never thought he could afford.

With the financial seminar as his inspiration, Allan sought out additional ways to educate himself. He went to his local library and took out a number of books written by well-respected financial experts and read back issues of a monthly magazine that focused on how to manage money. He subsequently established a relationship with a professional financial advisor who helped him develop a plan to reach his financial goals. He now has a growing savings and investment account, and he

has refinanced his mortgage. He knows that being educated and having a plan is half the battle. And he sleeps soundly—every night.

## Commonsense Considerations

Here are some time-tested principles of money management Allan learned that might help stretch that paycheck beyond your basic expenses.

- Start by embracing the principle of paying yourself first. No matter how little or how much you earn, you should automatically put a set amount in your savings account. This way, you can work to build up your savings.
- Find a way to save \$100 to \$150 monthly. Track your expenses carefully for a month and then sit down to evaluate them. An obvious first place to look to cut would be services or products that you don't use or can stretch between uses, like visits to the barber or beauty salon, custom car washes, dry cleaning, or recreational shopping. If you still can't come up with the money, you may have to resolve to make a lifestyle sacrifice for a limited period until you meet your goal.
- Make sure your mortgage has the best rate and terms possible. Keep an eye on rates and offers and refinance when it makes economic sense. Be sure to ask your lender for the true cost of refinancing, including points, fees, and the like, and for repayment terms. **AU: INSERTION OK?**
- Arrange to pay half your mortgage every two weeks rather than once a month. This allows more money to go to principal than interest, paying off the mortgage sooner (and saving you interest on that principal) than the scheduled term. Or arrange to make one additional mortgage payment per year, in conjunction with an annual bonus, tax refund, or end-of-year savings.
- Invest intelligently. Consider the advantages of tax-deferred investments, such as retirement accounts, where you have no income taxes to pay now and interest is reinvested to increase the base so that additional earnings can accumulate. Taxes are due when money is withdrawn, and early-withdrawal penalties may apply.
- Establish an emergency fund, and give it special status. You should

aim to accumulate three to six months of living expenses. Keep these funds liquid but not too readily available and use them only to pay for serious, unexpected situations.

- For further guidance, check out Chapter 8, “Dispatching Debt,” Chapter 9, “Building a Budget,” and Chapter 17, “Saving Your Financial Life.”