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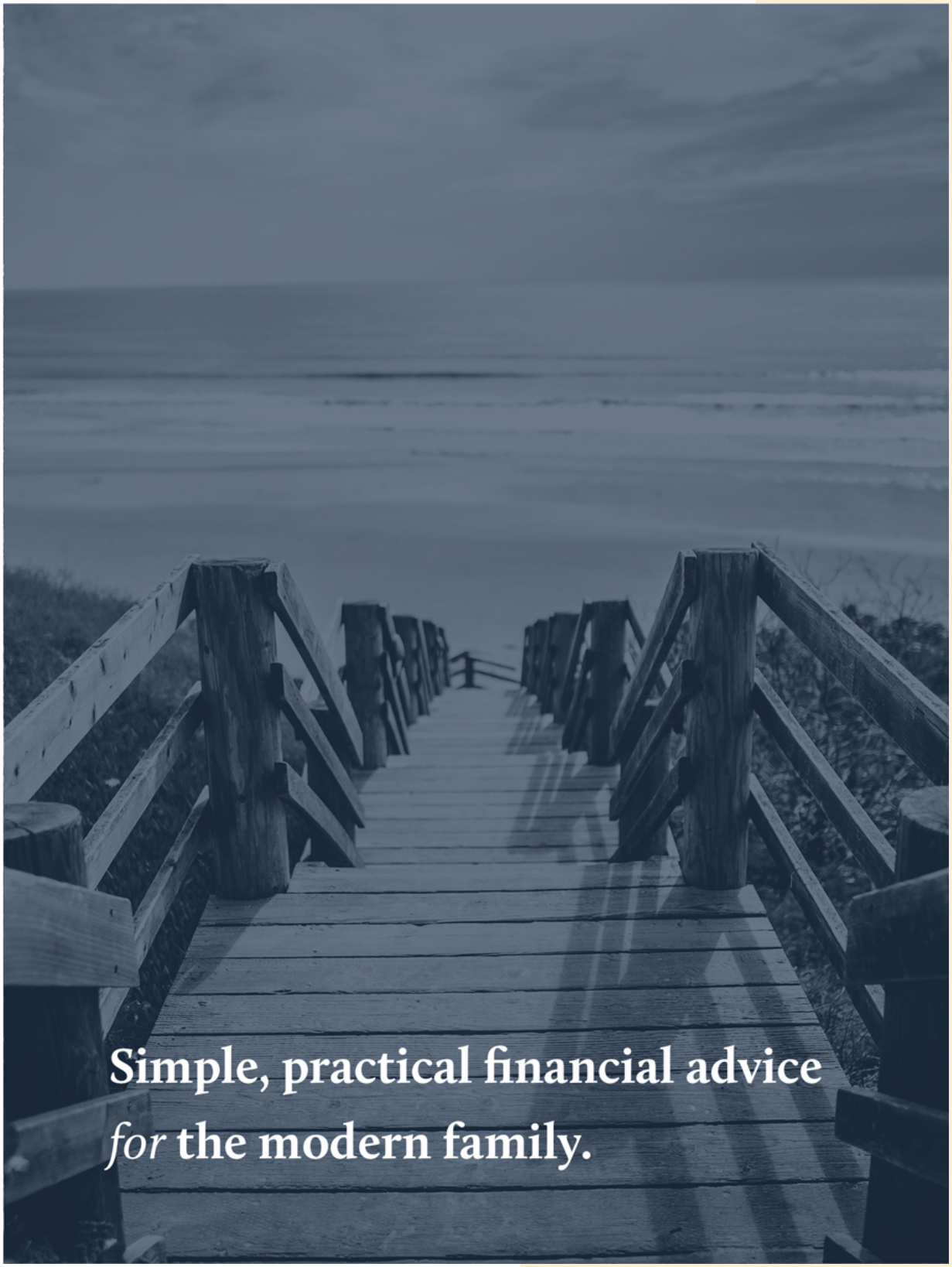
SIMPLE Money



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Introduction: Issue No. 04

—The Founders

Albert Einstein is credited with saying, “The definition of insanity is doing the same thing over and over and expecting different results.” It’s a harsh statement, especially when you consider the fact that *insanity* is most often used to describe a severely disordered state of mind. But we don’t think the harshness of the phrasing should distract us from the underlying truth of the quote. In fact, we’d like to use the message to introduce this issue of *Simple Money*, our fourth issue of the magazine.

If anyone is unsettled in their financial condition, whether that be not enough money coming in, too much money going out, an inability to make ends meet, or little to no margin, something has to change! It is foolish to think our financial condition will change in the future if we continue to do the same thing going forward. If we hope to enjoy a different outcome in the future, we must make a personal change in how we view and treat our personal finances today.

In this issue of *Simple Money Magazine*, you will find articles by experts in financial education, experienced financial advisers, award-winning podcast hosts, best-selling authors, and more. Each will provide unique thoughts and practical ideas to help you cut expenses at home, set a budget, save for retirement, or find focus for your most important financial step forward.

We trust you will find benefit in these articles—and be able to make changes in your life because of it. May each of us see the wisdom of doing so.

— Joshua Becker and Brian Gardner

The Delicate Art of Talking About Money

—Sarah Li Cain

What could you learn about handling money if you played Monopoly with actual cash?

What helped one young woman when she was broke and felt stuck in her finances? Learning to open up about her money situation with other people.

At age 22, sitting in my childhood bedroom in my parents' house, I couldn't believe how broke I was. I had just returned from working abroad in Australia and managed to have zero dollars in my bank account and $9,000 of credit card debt. I could tell you I had no concept of how to track my spending and all that, but it wouldn't be true.

Growing up with accountants all around me, I knew a thing or two about spreadsheets, QuickBooks, and budgeting. But all that financial knowledge couldn't prevent me from getting into a financial pickle. Having people around me knowledgeable about money wasn't enough to help me become better and more intentional with my money.

So, what did?

Simply put: learning to have deep and honest conversations about money. Lots of them.

Starting Small

I'm not going to lie and tell you I suddenly talked about money with everyone I encountered. Frankly, it was so freaking hard to even look at my credit card statement that I couldn't imagine talking to someone about my shame around money.

Instead, it started small. I started asking myself what I spent my money on and what could I do to start earning some money fast. That's it.

As I looked line by line at my credit card statement, I started telling myself that what was done was done and that the only way out was to move forward.

In the next few days, I walked down the street from my parents' house to the restaurant where I used to work during college. I guess you could say my first conversation around money was negotiating for extra work hours with the restaurant manager.

As I felt less anxious about my debt, I started asking my mom about what it meant to only make minimum payments on my credit card. She knew I wasn't in the best financial shape but never dared to pry into the matter. Instead, whenever she and I would run errands, she'd simply tell me that money is meant to be spent

carefully and she hoped I was happy. But when I began asking her specific questions about money, she began to open up.

By this point, the desire to learn more about what led to all this debt grew stronger. I started reading books about money and self-help and learned that having a support system is key to a better life.

Speaking one day to a childhood friend, who was then living in South Korea, I admitted that I had no job prospects and I was in debt.

She spoke about her student loans and said that she had moved overseas so she could pay them off.

The next day, she offered to put in a good word for me at the South Korean school where she worked if I was interested. To my surprise, we discussed salaries, how she negotiated for more, and how we could split the referral bonus if I were to get hired.

A few weeks later, I boarded a flight to South Korea.

Speaking Intimately About Money

After being debt free while in South Korea, I landed a job in China. By this point, I was much more brave about talking about money.

Coworkers constantly spoke about tutoring gigs and which families paid the most, so I was used to being transparent about salaries and how I spent my money.

It was as much a surprise to me as anyone else that the person I would marry proposed to me because of money. Well, more like a willingness to be open and honest about it.

When I first met my husband, we had both just arrived in China, ready to start our new jobs. We didn't know the area, and I admitted I was on a budget that month—it would be a month until we got our first paychecks. He smiled and asked me how much I was willing to pay for a meal. I mumbled a number and we turned it into a game, going from restaurant to restaurant looking at the prices on the menu.

When we finally settled on a place to eat, we had already talked about how much debt we had, how we paid it off, and whether or not credit scores were important. I admitted that the thought of not having enough money scared me, and he responded by telling me some of his fears around me. After we started dating, he and I shared even more, including our bank accounts.

When we got engaged, I asked him what convinced him I was the one.

He told me it was because he could trust me with his money.

The Importance of Money Conversations

Throughout my financial journey, having conversations around money helped me remove the stigma and shame associated with it all. It made me realize that I was not alone when it came to my challenges. It also gave me a space to celebrate all the triumphs, the things I was proud of.

I owe it to my childhood friend for openly talking about salary and getting me started on my debt-free journey. If I wasn't willing to tell her I was in debt, who knows if she would have let me know about job openings in South Korea. If I didn't start asking my mom simple questions about making minimum payments on my credit card, who knows if I would have been willing to open up to anyone else.

Being able to trust my husband with my deepest and darkest fears about my finances led me to finally realize all the negative emotions I needed to grapple with so that I could get a better handle on my relationship with money. His compassion, support, and willingness to have these tough conversations again and again—especially when we faced temporary bouts of unemployment, career transitions, and becoming parents—was what has helped me thrive.

As I grew more confident in striking up conversations about money, I found a group of amazing ladies with whom I have conversations about money daily. I'm not exaggerating. What started as a monthly get-together to talk shop about writing has turned into deep friendships I'll cherish for years to come.

Recently, I've been facing a lot of anxiety around a few transitions in my life and how money is playing into it. Through my friends' guidance and support, I've been able to get different perspectives, suggestions on resources, and encouragement along the way. When I was about ready to give up on my freelance writing career and head back to a nine-to-five job, it was these ladies who talked me through my financial situation, what I could do to beef up my emergency fund, and the need to give myself permission to relax into the unknown.

Easy Ways to Begin

Just because I'm open to sharing things such as my salary, savings rate, and money mindset challenges doesn't mean everyone is. I find that that I have to navigate coming across as someone who is obsessed with money whenever I'm with someone who has expressed concerns about their money. Having deep and honest conversations about money has had such a positive effect on my life that I want to help others as well.

If that's you and you're still feeling scared about talking about money, that's okay. It's not easy. There's so much of our identity tied into money that it feels raw and vulnerable to do it. But I can attest that getting my financial house in order started with simply having conversations with others about money. If you're struggling with your finances, this is the place you should start too.

You don't have to start by discussing salary negotiations or your net worth. It's as simple as asking simple questions or making small talk. Maybe you found a really great deal at your local supermarket. Or you were curious what someone else paid for internet service.

These conversation starters can be the catalyst for much more intimate conversations. If you're nervous about talking to your spouse or family member about money, start with life goals and bring money into it. Finding a common ground, such as looking for a new apartment or where to go on a vacation, can open the doors for honest money conversations.

What I've learned over the years is that it's these small steps that help you build confidence over time. You learn over and over again that those who truly care about you want to help, especially if you're facing challenges in your financial situation. They may not have all the answers you're seeking, but they're there as a shoulder to cry on or as a sounding board.

Most importantly, the conversations you'll have will hopefully lead you to remove the stigma around money. You deserve to have a healthy relationship with it. You are worthy of living the life of your dreams.

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Sarah Li Cain is the host of Beyond the Dollar, a podcast where people come to have deep and honest conversations about how money affects their well-being. Her work has appeared in places such as Quicken Loans, *Redbook*, Stacking Benjamins, and *Her Money* podcast with Jean Chatzky. Her work blends practical tips and mindset strategies so that those trying to change their financial life can see themselves in the starring role.

Go Small

—Joshua Becker

To change your financial circumstances, choose focus.

In his *New York Times* bestselling book, *The One Thing*, Gary Keller argues for a simple truth: "When you want the absolute best chance to succeed at anything you want, your approach should always be the same. Go small."

He supports his thesis throughout the book by using research, examples, and personal experience. "Extraordinary results are directly determined by how narrow you can make your focus," he reiterates over and over again.

Gary admits that his advice is not new or unique to him. In fact, the truth has been espoused and modeled by some of the most successful men and women throughout history:

- "Be like a stamp—stick to one thing until you get there." (Josh Billings)
- "It is those who concentrate on but one thing at a time who advance in this world." (Og Mandino)
- "You must be single-minded. Drive for the one thing on which you have decided." (General George S. Patton)
- "Success demands singleness of purpose." (Vince Lombardi)

Gary Keller makes a convincing case. Those who are most successful in their life endeavors are those who identify, define, and pursue their next most important step without being distracted from it.

I find his advice compelling, especially in our approach to personal finance and making the changes we desire.

Many of us feel the stress of our circumstances and sense that the clock is ticking on our life. We want to budget better, pay off our credit card debt, save for retirement, fund our child's college, pay off the mortgage, invest in real estate...and we want to do it all right now, today.

The options paralyze us. Or maybe better put, the immensity of what "we should be doing with our money" paralyzes us. And so, too often, we figuratively throw up our hands in disgust, deciding that doing nothing is better than failing at everything.

We understand the importance of healthy, life-giving financial habits. We've seen their positive influence on the lives of others and we envy the life they live. We desire it to be true of ourselves, but the road looks too long from our Point A to their Point B. So we give up the pursuit before we even start.

I want to offer a new approach for you today. Go small. Choose focus.

Your One Thing

Rather than trying to do everything at once or before the end of next weekend, choose just one step to pursue today and pursue it with blinders on, refusing to be distracted by "everything else you should be doing better in your financial life."

You don't have to start with a big step and you don't have to have everything figured out before you start. Remember, one small step down the right path is all you need to start heading in the right direction.

This truth applies to every positive life change we desire to embrace with our lives. The journey anywhere almost always starts with one small step. As I look back over the past years of my life, I see this theme recurring over and over again:

- The journey of removing most of our worldly possessions began by simply removing the clutter from our cars.

- The accomplishment of running my first marathon started by waking up one day and running one mile.

- The journey of establishing a blog and inspiring others began with one simple post.
- When my wife wanted to learn how to sew, she began by attending just one sewing class at a local church with a few of her friends.
- When my son wanted to make the high school volleyball team, he went out in the driveway with my wife and first learned how to bump.

Some of the most significant achievements in your life can be traced back to one small step in the right direction.

Today I encourage you to choose just one financial goal you intend to pursue. Make it your One Thing—the single most important first step that you intend to take for you and your family.

A next, best step is going to look different from one person to another and one family to another. As well it should—we come from different backgrounds, different starting points, different income levels, and different family/living situations. The One Thing will vary from one person to another, but the importance of choosing just one step applies to each of us.

One Step at a Time

What is the next best step for *you* to pursue?

In all my years of discussing financial well-being with others, I have never seen an approach to financial intentionality work better than Dave Ramsey's seven steps to financial freedom. For that reason, let's consider these steps to help determine your best, next one. They come from his book *The Total Money Makeover*.

Step 1: Save $1,000 for your starter emergency fund.

Step 2: Pay off all debt except the house mortgage using the debt snowball (paying off accounts starting with those that have the smallest balances first).

Step 3: Save three to six months' worth of expenses in a fully funded emergency fund.

Step 4: Invest 15% of your household income in retirement.

Step 5: Save for your children's college fund.

Step 6: Pay off your home.

Step 7: Build wealth and give.

I encourage you to identify where you are on the list above. What step do you need to complete next? Save $1,000? Pay off debt? Start saving for retirement? Maybe it's pay off your mortgage or become more generous?

Resolve to complete just the next one thing in your financial journey. Don't get sidetracked trying to do everything at once.

It is important to note that each of those steps above can be broken into smaller parts. We begin saving $1,000 by saving $100, then $200. We pay off our debts one credit card or loan at a time, starting with the smallest one. We begin saving three to six months' worth of expenses by reaching one month, then two.

See what I mean? Even the next financial step for you can be broken into smaller steps.

My heart for you is to help you become more intentional with your finances and discover greater peace because of it. Remember Gary Keller's words: "If you want the absolute best chance to succeed at anything you want, your approach should always be the same. Go small."

Pick one small financial goal and pursue with all your energy and focus. You can do it.

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Joshua Becker is the founder and editor of Becoming Minimalist, a website that inspires 1 million readers each month to own less and live more. He is also the best-selling author of *The More of Less* and *The Minimalist Home*.

Create Better Finances One Habit at a Time

—Latoya Scott

We all have habits, including in our financial lives. Which unhelpful habits do you need to unlearn if you are going to reach your money goals? And which constructive habits can you begin to establish today?

Chances are, if you're reading this, you're tired of struggling financially. Article after article, one expert versus another, and all you're left with is a bunch of advice that isn't beneficial to your personal circumstances.

How would I know this? Well, I've been there. I may be a financial educator now, but just 11 years ago I was standing in front of a bankruptcy judge.

After that experience, with my financial past behind me (or so it seemed), I started reading everything I could about money management. I had no clue there were so many ways to budget. I didn't even know about a debt snowball or avalanche prior to bankruptcy. All this information was new to me, but I dived right in because I refused to make the same mistakes twice. I wanted to learn how to manage my money better, and the lessons I've learned along the way have been life changing.

Now, you're probably thinking mountains need to be moved in order to gain control of your finances. I can assure you that's not the case. All you need to do is start building a few key habits.

First, Track Expenses

We're all good at certain habits. You've probably perfected your habit of grabbing a coffee from a coffee shop before work every day. But guess what—I'm not going to challenge you about it, and neither should anyone else. What we should be challenging is the ignorance that comes along with a daily coffee-buying habit.

What do I mean, exactly? Well, let's say you need to find $150 before the end of the month for an unexpected bill. It seems like the money is nowhere to be found and you're not sure how you're going to pull it off. Now think about it—how much is that coffee habit costing you every single day? Over the next month, it may just add up to the $150 you need! See? The problem resides in the not knowing, not in the habit itself.

So, yes—I'm not here to challenge the habit per se, but I would encourage you to implement a new and more productive habit. This habit can change the game for you and it's simple: *track your expenses.* I never realized how big of a difference this could make financially until I tried it myself. If you simply keep up with the cost of how much you spend every single day, you'd be in a much better position to improve your finances.

For me, it all started with a teal journal and a pen that I carried in my handbag everywhere I went. If journaling isn't your thing, there

are plenty of apps that will help you track your expenses. You could even use the notepad app on your phone. With my expense journal in hand, I wrote down every single dollar I spent, because I had no clue what to include when I created my first budget besides the normal things such as rent, car payments, and insurance. Once I started writing down every drive-thru expense and every purchase on every Target run, that was the beginning of my financial awakening.

After I realized how much money my bad habits were costing me, I was able to come up with a budget and a plan to improve my finances. Doing this one simple thing led to all the other financial decisions I made thereafter

Tips for Saving

I want to share with you a few other money-saving tips that complemented my basic habit of tracking my expenses. Incorporate this simple habit yourself and these tips will become like second nature to you.

1. Shop smarter and effortlessly.

Let's face it, we're all going to spend money, but that doesn't mean we should spend it the same way we've always spent it. Online shopping is growing for a reason. It gives us the opportunity to

search for the absolute best deals with the click of a button. Plus, we can use cash-back sites such as Ebates to score additional savings.

2. Rethink your food habits.

Ever heard of Meatless Monday or Free-for-All Friday? Well, the concept here is to create themed meal days where, for example, on Monday your meals would exclude meat. A frugal substitute would be lentils or beans. On Friday, serve your leftovers in a "free-for-all" effort to use up anything that would normally go to waste. Giving up meat once a week and eating what you already have at home are great ways to get a handle on your food budget.

3. Try to find local discount stores in your area.

Discount stores such as Aldi, ShopRite, or Lidl can be your budget's saving grace. As we all know, it pays to shop around and get the best deals. Realistically, however, not many people have the time to shop at three or four different grocery stores. With that said, discount grocers often have the same food items that your traditional grocery stores carry. Experiment with these stores for a few weeks and note the difference in how much you're spending.

4. Gift experiences over expensive and easy-to-forget gifts.

How many toys have your kids received over the years that they forgot within a week? Or how about you? Do you have several gift cards in your wallet to stores you never step foot in? Does your closet have a few gifts you've failed to put to good use?

Sometimes gifting experiences over things is more appreciated. Instead of spending $25 on a gift someone doesn't like, offer to take them to dinner, a play, or a movie. In lieu of gifting your kid another video game, take them to a museum or a concert they'll love. This is a great way to create memories and make someone feel special no matter the occasion.

5. Create a budget you can actually work with.

Tracking your expenses gives you an accurate idea of how much money you're spending. No more guessing how much money you're spending on food each month. The numbers are staring directly back at you and you can face the realities that come with modifying your spending habits.

With this information, it's easier to say you'll spend $300 on food versus $600, but keep this in mind—if your budget doesn't work, adjust it! If cutting your food budget in half drives you to takeout because you don't have enough food on hand, your budget will fail you. Your budget needs to reasonable and flexible.

6. Use a separate bill-paying account and set up auto-pay.

You may be scared silly about setting up auto-pay for your bills. The thought of it may make you nervous because you don't want the cable company to try to deduct payment after you've spent the last dollar in your account, right?

Well, I have a solution that's worked well for me over the last years. Set up a separate account for paying all of your bills. Don't attach a debit card to it. Have a portion or all of your paycheck deposited to this account. Know the minimum amount you need at all times to make sure your account never overdrafts. This is how you make bill auto-payment work for you.

7. Save money automatically.

Just as many of us would benefit from auto-paying our bills, the same holds true for saving more money. Out of sight, out of mind savings is a method that helped me save two years' worth of expenses in our savings account. This money came in handy after a job loss, because I didn't need to immediately figure out what my next steps would be.

The same way you set up direct deposit for your paycheck, have a certain percentage from your pay directed into a savings account. It doesn't need to be a huge amount of money; even the smallest

amounts can make a difference for your financial situation. The most important thing is that you make this account as least accessible to avoid spending. Consider using a separate online savings account to avoid the temptation of using all the money you're going to save.

8. Always remember, actual therapy can sometimes be cheaper than retail therapy.

The last tip I want to share with you is a tip that would have helped me avoid bankruptcy. It's easy to go to Target for an emotional pick-me-up—trust me, I still struggle with the temptation. Shopping while depressed was the number-one contributing reason for my racking up a bunch of charges I couldn't avoid. A counselor may be able to help balance your emotional state without cluttering your home with stuff you didn't need.

Even psychological care can be expensive, of course, which is why many avoid therapy. If therapy costs just won't fit in your budget, support groups, religious leaders, or concerned loved ones help too.

One at a Time

While the list above isn't an exhaustive catalog of ways to save more money, the best place to start is by figuring out where your

money is currently going. Once you've tracked expenses and have an idea of how to structure your budget, layer in some of these more practical money-saving tips. Things won't turn around overnight, but one habit at a time is all it takes to go from an amateur to a money-savvy pro.

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Latoya Scott is a certified financial education instructor living in Columbia, South Carolina. She is also creator of the website Life and a Budget and has been featured by Discover, Credit Karma, and more.

Win with Money

—Ashley Patrick

You can reach your financial goals! Victory starts with a budget.

Life is all about prioritizing your time and money. Even if you don't realize you are doing it. You spend your money and time where it is most important to you.

If you want to win with money, you have to determine your priorities and manage your resources around what is important to you and your family. So think about this important question before reading any further: *What do you want to do with your time and money?*

Do you want to continue to be in debt, working at a job you hate just to pay the bills until you retire or die? Doubtful. You have much bigger dreams for your life and resources.

Here's the truth: if you would like to pay off your debt, save money, stress less, and live the life you want, then it all starts with a budget and setting your priorities! A budget will show you what you can accomplish with your financial resources and how fast you can get there.

You will probably be surprised by the numbers. I know I was, and countless others have been as well. A budget helps us discover not only how much we have been spending (and sometimes wasting) but also how much money you actually have.

When we don't realize where our money has been going, it can feel like we don't have much. But once you begin to see it, you can start to make changes.

Winning with money is all about changing your behavior and mindset around money. Being in debt is not a math problem; it's a behavior problem.

Zero-based Budgeting

A budget is simply a goal for your money. A budget is breaking down where you want your money to go each month based on your family's priorities.

I recommend a zero-based budget so that every dollar works for you and your goals. A zero-based budget is planning where every dollar will go in a month. So at the end of the month, on paper, it will show zero dollars left. [1]

I realize that most people don't know what a zero-based budget is or how to do one. A zero-based budget is, however, extremely powerful if you want to win with money.

Planning every single dollar is what allowed me to pay off $45,000 in 17 months.

We were a normal family, dual income and two kids. I did a budget every month, but whatever was left after bills, food, and gas, we just spent. I didn't even actually stick to the budget at all! We were spending $1,200 a month on groceries, eating out, and fast food.

When I found zero-based budgeting and the debt snowball, I found a budgeting system that worked for me, one that I was able to stick to each month. For the first time, I was able to see where our money was going, and it was life changing.

At one point, I put our tax bill on a credit card, hoping to pay it off before the introductory rate expired. Well, thanks to zero-based budgeting, not only did I paid off the tax bill, but I paid off all our consumer debt before the rate expired.

All because I changed the way I budgeted and then got to work finding money to send to my debt.

Starting Your Budget

A zero-based budget lets you see where your money is going, plan for expenses, and save money. Plus it will let you pay off debt incredibly fast if you are willing to put in the work.

The first step in making your budget so you can manage your money better is to see where your money has been going. It's the hardest but most important step.

Like I mentioned before, I was shocked at how much money we were spending on food. We were spending $800+ at the grocery store a month on top of $400+ on eating out. I did not even realize it was that much. Once I saw the number on paper, I was able to start making changes. I was able to cut our food budget in half! I save $600 a month every month since I did this.

Overspending is harder to ignore when you see the numbers on paper staring back at you. Sometimes, just seeing it on paper is enough to wake you up to easy spending changes that can happen in your life.

Start by going through what you have spent in the last one to three months and categorizing each purchase. This will give you a starting place for your budget.

Next is doing your zero-based budget based on your priorities and physically writing it down. You are more likely to achieve a goal if you write it down. A budget is a goal for your money, and you need to have the connection of writing it down.

Once you get the hang of it after a few months, you can move to a spreadsheet or app. But I always recommend people begin the process on paper—it's important to physically write down the numbers on paper.

Make a list of all your set and known expenses for the month. Then set reasonable amounts for things like food, gas, clothing, and other variable expenses. Don't forget to add in money for fun.

Also consider your short- and long-term goals. Some of these include saving for certain things that don't come up every month, such as Christmas, birthdays, and vehicle and house maintenance.

Then what is left goes toward paying off debt or saving for emergencies.

Once you decide what your priorities and goals are, you will know where to put your extra money. For instance, if you want to pay off your debt, then all extra money goes toward your debt. This will help you pay it off extremely fast.

Once you start making progress on your goals, it will help motivate you to do it even faster. Some ways to speed up the process include cutting expenses, adjusting budget categories, and find ways to make extra money.

Tips for Sticking to Your Budget

A budget is great and all, but it means nothing if you don't actually stick to it. Now, keep in mind that it can take up to 90 days to change habits. [2] This includes your spending habits. So, know that your budget won't be perfect and you will have to make adjustments, especially in the first three months or so.

Here are some tips for sticking to your budget:

Use cash instead of swiping a card.

Studies have shown that we spend cash differently than swiping a card. [3] Using cash and an envelope system will alleviate most people's apprehensions about using cash. If you try it, you will spend less and stick to your budget easier.

When the cash is gone in that envelope or category, you stop spending. That's it.

Stop using debt.

If you want to win with money, you just have to stop using debt. You can't get out of the hole with a shovel in your hand. Stop digging yourself in deeper and then work to get out of the hole.

Get on the same page with your spouse.

If you are married, you have to be in agreement with your spouse about what you are working for and why. It will be hard to get ahead if the other one is sabotaging the budget when the other isn't looking.

It's also important to dream together and work together for the same goal. If you are both all in on why you want to do this, you can achieve it.

Have a miscellaneous category.

It's nearly impossible to think of every little expense or anticipate all the demands on your resources. Having a miscellaneous category in your budget will make it easier when you forget little things.

Plan for irregular expenses.

Irregular expenses are things such as cold and flu medicine in the winter, vehicle taxes, new tires, and so on. These aren't regular monthly expenses, but they are bound to come up periodically. If you plan for these things, they won't become an emergency when they happen.

Getting Where You Want to Be

Winning with money means different things to different people. Yet it basically all boils down to being able to do what you want to do with your money, whether that's going on vacation, retiring, paying off your debt, or saving for emergencies.

It's all about prioritizing your money with a budget. Setting your goals and making your budget work toward those goals by making every dollar work for you.

Once you start creating new habits and changing your mindset about money, doing and sticking to your budget gets easier each month.

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Ashley Patrick is a Ramsey Solutions Master Financial Coach and owner of Budgets Made Easy. She helps families eliminate debt using simple strategies so they can stress less and live the life they want.

The Spending Diet

—Anna Newell Jones

Just like eating less can get you to your ideal weight, reining in spending can enable you to live within your means.

We all work hard and we all want to be able to spend our money the way we want to, but if your spending habits are building your debt or are keeping you from reaching your other goals, it could be time to get things under control.

I know all about spending money I don't have, because a couple of years ago I had close to $24,000 in debt. It was a combination of credit card debt, student loans, and an overdraft account that I constantly tapped into to cover my overspending. So I started what I call a *spending fast*.

A spending fast is bare-bones living at its finest, and I did it for an entire year. I spent on needs only and, among other things I decided on: no eating out, no new clothes, and no giving gifts to my friends and family. They loved that! (They didn't.)

There's no doubt that the spending fast was very, very difficult at times. But it was also extremely effective, and I ended up eliminating close to $18,000 in debt in only 12 months! Since I still had some debt following my year-long spending fast, I decided to modify it a bit and start a *spending diet*.

With my spending diet, I still stuck to buying just the things that were on my "Needs" list (more on that in a sec), but with the spending diet I gave myself a $100-a-month "non-needs" allowance. With this approach, it took just three more months and I was able to pay off an additional $5,000 in debt, which resulted in complete debt annihilation!

I wiped out $23,605.10 in debt through my spending fast and spending diet. While I paid off the bulk of my debt because of the spending fast, the spending diet turned out to also be a super-effective debt-elimination technique.

Spending Fast vs. Spending Diet—Which Is Best for You?

Interested in paying off debt fast too but not sure what approach would be best for you? Here are some things to consider:

- The spending fast is great for people who are "extreme," "all-in" types who find budgets kind of tedious.

- The spending diet is perfect for people who are more moderate, can do budgets, and want to test out the idea of cutting back on their spending.

The Troublesome "Gray" Area

As an "all-in" type of person, I found the spending fast to be a lot easier for me. I discovered a weird irony—through having more restrictions, I actually felt more free.

By making the one decision to do the spending fast, to do it for a year, and to spend on needs only, I, in effect, also made a million other, smaller decisions. The spending fast eliminated the "gray" area and my life felt more simple. I wiped out the daily, constant, seemingly never-ending internal struggle of "Should I buy it or shouldn't I?"

Instead, that "struggle" question was replaced with "Is it on my needs list or not?" If it wasn't, I didn't even allow myself to entertain the idea or purchasing the item. Talk about clearing out a ton of mental energy! Until I started my spending fast and subsequent spending diet, I had no idea how much mental energy and time I was spending thinking about, and being consumed by, material objects.

After my spending fast, the tricky "gray" area of my life was reintroduced with the spending diet. For me, as an "all-in" person, I found the spending diet harder. That gray area I had so effectively removed from my life? It was back. While the spending fast year was up, and while I was really ready to have my spending fast end,

I was also really nervous. I couldn't help but wonder, *Will I go back to my old bad spending habits? Will the spending floodgates open back up?* Worst of all, I had to honestly ask myself, *Will I get right back into debt?*

I decided that a spending diet was the perfect segue to introduce spending back into my life. It would be how I'd teach myself to "spend normally," to not obsess, to not buy everything that caught my eye, to once and for all prove to myself that my spending fast had truly changed me, fundamentally...from the inside out. The spending diet would be the ultimate test.

How the Spending Diet Works

With both the spending fast and spending diet, the "Wants and Needs" list was by far the most helpful tool in controlling my spending.

This is how it works:

Pull out a piece of paper. On one side, write "Wants." On the other side, write "Needs."

Let's go ahead and start easy and list the things that are needed to survive. These are things such as housing, groceries, and utilities.

Next, we're going get into the gray area of things we might need. These things vary from person to person. And the beauty of the spending fast/spending diet is that the "Wants and Needs" list is structured around your priorities in life and around what matters most to you. I truly believe that this customized natured of the spending fast/spending diet is the reason why our community has been able to pay off over $5 million in debt in just the few years I've been tracking the success of the method!

Basing your "Wants and Needs" list on your life priorities means that maybe you don't want to give up your gym membership, or maybe you really like eating out on Friday nights. That's okay. This is your list, so you get to add them on! Have kids and they have activities you want to keep them in? Put those on the "Needs" side of your list. It may mean your debt payoff is a little slower, but it also will mean that you'll likely stick to it longer, and it turns out that adherence is the key to success.

Setting your non-needs allowance

Next, you'll want to set a limit on how much you want to spend on your wants each month. It could be a $100 a month, like I did, or it could be $500, but let's try to be conservative, since we are trying to control spending after all.

Reality check-in: I feel like I should do a little disclaimer here. My non-needs allowance right after my spending fast ended was a whopping $200 a month. However, I quickly scratched that and cut that amount in half because it felt like so much after my spending fast.

Tally and stop

Keep a tally of all the money you spend on wants and then, when you reach your limit, go ahead and stop spending. So easy, right

Reality check-in: Remember that "gray" area I mentioned earlier? Remember how I said that I found the spending diet much harder for my personality type than the spending fast? This non-needs allowance is where I saw the biggest struggle. An allowance of $200 seemed like too much, and my new $100 limit was obliterated every month. I did not stick to the limit at all.

The "Should I buy it?" checklist

The concept of a spending diet is pretty simple, but sticking to it, like any diet, can be challenging. Whenever I find myself wanting to spend money, I use this list of questions I've created to see if I should make a purchase.

1. *"Do I need it?"* This question will bring you right back to the "Wants and Needs" list that you created earlier.

2. *"Do I already have something like it?"* If you already have five black dresses, then you might not need another one.

3. *"Is this item well made? Will it last a long time?"* Often I find myself tempted to buy cheap, trendy items, and honestly, I've decided that I'd prefer to buy a couple of well-made items instead of 20 so-so ones.

4. *"Is it expense-worthy?"* Meaning, do I really want to spend an hour of my life, or two hours of my life, or more, at work to pay for an item? If you think about it like that—that you're selling the hours of your life for a material object—there's no way that you can think about a purchase in the same way as before.

5. *"Is it worth what they're charging?"* Do you need name-brand running shoes, or would the off-brand ones work just as well even if they aren't as flashy?

6. Finally, *"Can I find it somewhere else cheaper?"* Be a sleuth and hunt down the deals. Usually, it's as simple as a quick internet search.

After I go through the entire list of questions, I go home and sleep on it. Or I close out the internet browser and sleep on it.

Then, the next day, I go through the list of questions again. If the item has lost its allure, that's it! No money spent—and more money can go toward paying off debt!

The Power of Perseverance

The spending diet can be tough at times, but the most important thing is to stay committed to the process. If you buy something you shouldn't have, return it if you can. If you can't return it, move past it, forgive yourself, learn from it, and keep going and give yourself the gift of staying committed to the process.

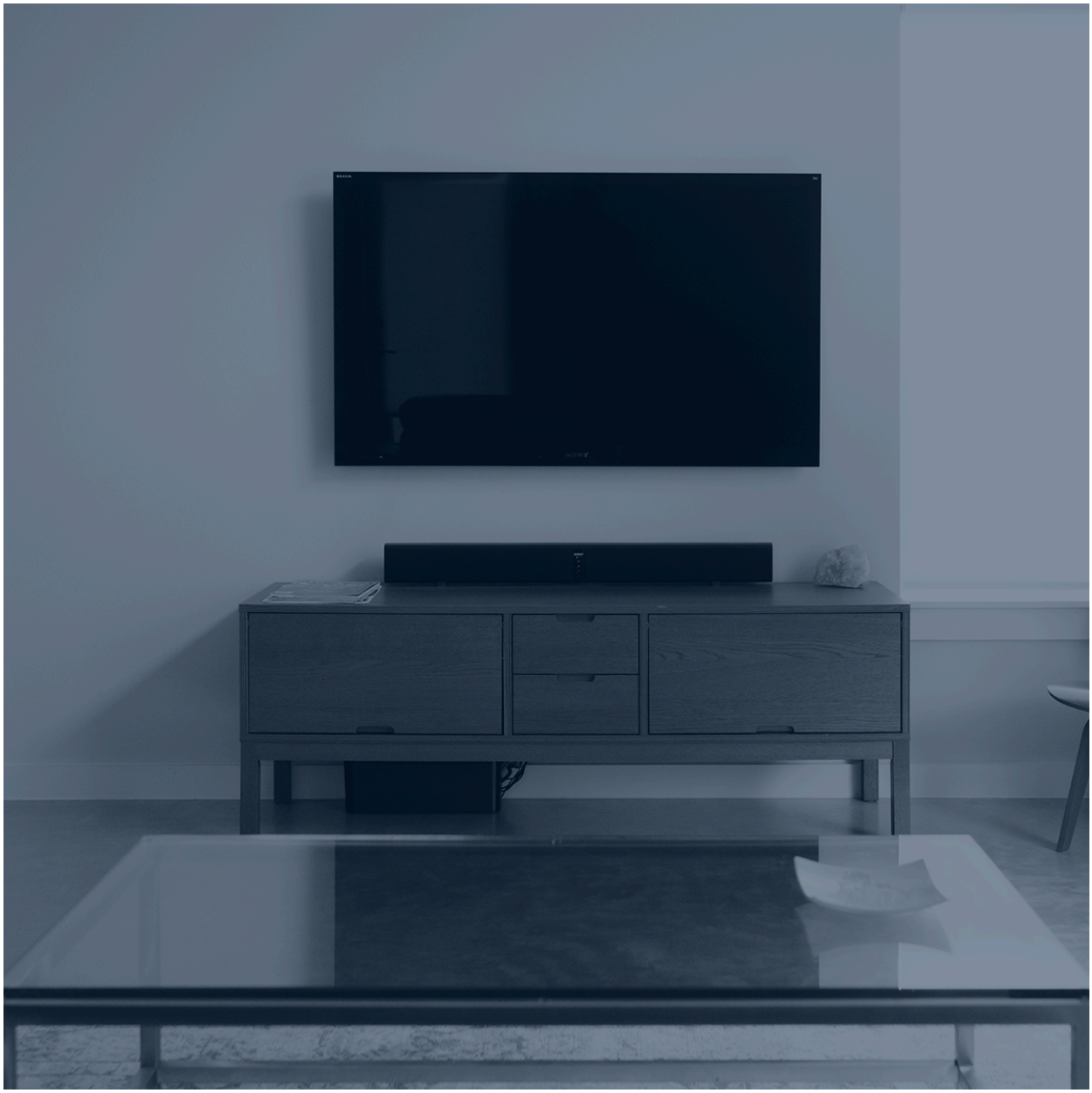
The spending diet is an extremely effective tool, and if you stick with it, before you know it, you'll be well on your way to a life with less debt and way more mental freedom. If you want that, you can have it.

. . .

Anna Newell Jones is the author of *The Spender's Guide to Debt-Free Living*. She's been seen on *Good Morning America*, in *Oprah*, *Glamour*, and *People* magazines, in the Huffington Post, and at Refinery29, among others. Through her website And Then We Saved, she's all about helping others see that they're not alone and that there is massive hope for getting out of debt.

The Ad Threat

—Kalen Bruce



Advertising has alarming effects on children and families, but parents can educate their kids on how advertising works and empower them to resist its worst influences.

When was the last time one of your kids whined or pleaded or put on the cute expression you can't resist in order to get you to buy them something at the store? Or maybe you have a teenager who likes to "educate" you on the coolest styles, trends, and brands. These are almost universal family rituals. And the pressure from the younger generation often works.

In fact, kids have the largest influence on family meals, entertainment choices, vacations, and many other aspects of life, according to a study on homes in Canada. [1] Advertisers know this and exploit it. Companies went from spending $100 million on advertising to kids in 1983, to spending over $17 billion on child-targeted advertising annually by 2007. [2]

Child-directed marketing is more prominent now than ever, and it's only getting worse. We can't change that, but we can help spread awareness.

Several studies reveal the alarming effects advertising has on our children. I've compiled the crucial facts and stats you need to know. Once you understand what's going on, you'll see how you can protect your kids.

How Kids Influence Our Purchases

Why do marketing companies target kids? There are three primary reasons:

1. Kids are vulnerable and susceptible to advertisements.

2. Companies want to build brand loyalty from a young age.

3. Kids play a significant role in families' purchasing decisions.

Advertisers don't view all children equally. Marketing companies target children differently depending on the child's stage of life and what the company is trying to sell. This has caused advertisers to group kids into three different markets:

1. Primary market—kids consuming with their own money.

2. Influence market—kids affecting parents' purchases.

3. Future market—kids' purchases once they're grown.

The influence market goes deeper than you think. Marketing campaigns exploit children for something kids are known for: pestering their parents. Advertisers refer to this as "pester power." From a marketing standpoint, this is a child's ability to nag until their parents buy things, whether for them or for the entire family.

"We're relying on the kid to pester the mom to buy the product," says advertising executive Barbara Martino, "rather than going straight to the mom." [3]

The pestering they're looking for comes in two forms:

- Persistence nagging—a plea that is repeated by the children until the parents give in and make the purchase.

- Importance nagging—guilting the parents into providing what's "best" for their kids (according to the marketing firm's definition of best).

Kids influence more purchases than we like to admit, and possibly more purchases than we even realize. Journalists Kim Campbell and Kent Davis-Packard explain, "The minivan was created, for example, because children demanded more room. Then they decided the three-door behemoth was uncool, helping give rise to the SUV." [4] And it doesn't end with family vehicles. James McNeal, a market researcher who specializes in the children's market, explains, "Every auto manufacturer has a strategy to target children."

Advertisers know how much your kids influence the vehicle you drive and other purchases you make. They use that to their advantage, and they continue from the *influence market* directly

into the *future market*. Children are future customers, and brand loyalty starts at a young age.

Brand Loyalty in Children

Credit Card Barbie carries a Visa, and it's not because the manufacturer wants Barbie to be lifelike; it's because Visa strategically endorses the product.

Credit card companies know how heavily brand loyalty is tied to a young adult's first credit card. Over 70% of kids will keep their first credit card indefinitely. [5] This is a big deal for marketers. It's easy money—often for a lifetime.

Advertisers don't even wait until your child is old enough for her first Barbie.

Babies can start forming mental images of logos they've seen, which leads to subconscious brand loyalty early on—as young as two years old, according to New Dream, an organization that is bringing awareness to children's overconsumption. [6]

Two studies, dating back to 1944 and 1964, revealed that adults typically use 23% of the products they used when they were kids—mostly things used on a daily and habitual basis. [7]

When a company gives away free products to a school (typically referred to as "sponsoring" the school or project), it's not just about the company "doing their part." Food companies such as Kraft, Pizza Hut, and Subway make their way into school lunchrooms with the idea of buying your child's brand loyalty. They make their branding highly visible for a reason. [8]

On average, children ages 2 to 11 see more than 25,000 advertisements a year on TV alone, not including product placement. [9] Advertisements are everywhere, and your child pays much more attention to them than you do.

According to researchers with the American Psychological Association, "As children reach the age of 4–5 years, they typically perceive a categorical distinction between commercials and programming, but primarily on the basis of affective ('commercials are funnier') or perceptual ('commercials are shorter') cues only." [10]

Companies such as McDonalds and KFC market products directly to children as "healthy options," when a complete study on advertising to children and nutritional value found few, if any, healthy choices at these restaurants. [11] No surprise there.

Some companies go a step further. Procter & Gamble actually has a panel of 250,000 teens who are asked to talk to their friends

about P&G products. [12] This is a form of "buzz marketing" that is infiltrating our schools, and it's alarming.

Yet advertising companies think this practice is perfectly fine. "I don't feel we're manipulating kids," says Kathy Lalley, senior vice president at Kid-Leo in Chicago, which handles accounts such as McDonalds and Nintendo. She believes they don't get kids to do anything they already wouldn't want to do. She goes on to say, "This society is a consumer society. Advertising, marketing and making brand decisions are part of life." [13]

It's obvious that we can't rely on others to protect our kids from advertising. Teachers don't. The marketers themselves clearly don't. This is another job left to the parents. So, what can we do?

As with so many other things, intentional parenting busts in the side door to fight the good fight. It's our best defense mechanism.

Before we dive in to how you can protect your kids, however, one more thing must be addressed: the dangers of unmonitored media consumption.

It's Not Just About the Ads

You can't shelter your kids from all forms of advertising, but you can be intentional about what your children are viewing.

It's important that we're intentional about what our children see, because once they've seen it, we can't take it back. Let's look at YouTube, for example. I have no problems with YouTube as a whole. I've spent some of the best, unexpected four-hour blocks of my life scrolling through their endless "related videos." However, you must know what you're subjecting your kids to, if you allow them free rein.

It's not just ads you have to worry about on YouTube. There have been some scary accounts of videos created specifically for children, but with highly inappropriate themes and images. [14]

One example is the pseudo–Peppa Pig video that a random YouTuber created, which depicts a graphic, violent scene at a dentist's office. [15] Though it looks like the real show upon first glance, and it was created for children to find, it's not something you would ever want them to find. It won't just ruin Peppa Pig for them; it could put disturbing images in their head that they can't get out.

It's simply too hard for YouTube, and other user-uploaded-video websites, to monitor everything. More than 400 hours of content are uploaded to YouTube every minute. [16] People who upload the videos know that most parents aren't monitoring what their kids are watching. Don't be one of those parents.

It's all related: advertising, marketing, unfiltered internet content. It's toxic. The only way we can fight toxicity is with intentionality.

As far as marketing goes, extended sessions on TV or YouTube will guarantee hundreds of ads in front of your kid's face, and possibly content that's worse than the ads. We've got to monitor what they're watching. This isn't just about "adult content"; it's about indoctrination by all of these companies.

How to Protect Your Children

Protecting our children starts with how we respond to these advertisements. For example, if we're giving in to impulse buys at the checkout line, how can we expect our kids to listen to us? We must control how we respond to marketing. It sounds redundant, but to model a proper response, we must first respond properly. We have to be real with ourselves about how advertising affects us.

The main way we can protect our kids is to teach them how advertising works. Teach your kids why they may want the toys, products, and food they think they want. Likewise, show your kids how marketers target you as well as them.

Show your children some examples of advertising, especially when it's right in front of you. When they see an ad, and want a product

because of it, use that as a teachable moment to explain how marketing companies target them.

It's perfectly fine for your children to want toys or other things they see in advertisements. (I'd be more concerned if they didn't.) But it's important to help your children make their own decisions, without the help of some multi-billion-dollar advertising company.

There are practical ways to protect your kids from advertisers and marketers. MediaSmarts offers some helpful ideas for us to consider: [17]

- Have your children share product jingles, slogans, or ad campaigns they remember. Guide them to discuss why they think they remember these ads specifically and what makes them so powerful.

- Talk with your kids about why they think the internet is a powerful place for marketing, and how they are marketed to when they're on the web.

- Show your kids a TV program, and have them explain the ads they remember throughout the show. Ask them why they think they remember those specifically.

If you are intentional and actively involved in your children's lives, you have the ability to combat all of the ads that will bombard them. It's the unmonitored media usage that poses the biggest threat.

We must protect our children before the marketers get to them. If we raise marketing-conscious kids, we can fight the unwanted effects of marketing and advertising for future generations.

. . .

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I'll Save Money...Someday

—Amanda Grossman

Here's why you need to make savings an urgent priority—today.

"Hi, my name is Amanda, and my husband and I are $59,496 in debt. I guess it all started when we were collectively laid off four times in the last decade. Losing both our vehicles in flooding—one during the infamous Hurricane Harvey and the other in a flash flood three weeks later—didn't help either."

You just heard my Debtors Anonymous elevator pitch, or at least the one I *would* give if I didn't have my financial priorities straight.

The fact is, my husband and I were able to go through all of the above situations (and then some) without going into debt. Not even a cent. On top of that, we've fully funded our individual retirement accounts every single year (that's about $11,000 per year), and our mortgage debt is below the $100,000 mark.

You might want to hit me over the noggin right now, but I'm not sharing this to brag. I'm sharing this because I want to show you what's truly possible with money.

I'm going to give you just one money mindset shift to make that will alleviate, in domino effect, many of the other financial struggles you could (and will) face in life.

But before we get into that, we need to quickly go over a prioritization method and how it applies to your money management.

Understanding the Eisenhower Prioritization Method

Dwight D. Eisenhower created an amazing prioritization tool that is supposed to help all of us figure out what needs our attention now versus what needs our attention later (or never). It's called the Eisenhower Matrix, and the quadrants look like this:

- Quadrant 1: Important and Urgent
- Quadrant 2: Important and Not Urgent
- Quadrant 3: Not Important and Urgent
- Quadrant 4: Not Important and Not Urgent

The idea is that we should be prioritizing the tasks in Quadrant 1, making room for tasks in Quadrant 2 (because even though they're not urgent, they'll help us progress in the long term), and eliminating or delegating whatever we can from Quadrants 3 and 4.

So, in the realm of money management, you might fill out the Eisenhower Quadrants like this:

- Quadrant 1: Fixing a broken tire so that you can drive to work.
- Quadrant 2: Saving up to send your three-year-old to college.
- Quadrant 3: Using a $5 off coupon that expires this week.
- Quadrant 4: Disputing a $0.52 extra charge on your cable bill.

Remember, this is not cut-and-dry. These money examples are based on my own real-life experiences and priorities.

But what is cut-and-dry about money management using Eisenhower's Method is which quadrant "saving money" should go into.

We've Gotten the "Saving Money" Quadrant All Wrong

The money mindset shift that you need to make can be summed up like this: stop putting the act of saving money in the "Important but Not Urgent" Quadrant and instead put it where it belongs—in the "Important and Urgent" Quadrant.

I know it doesn't seem this way. Saving money for some future thing that you don't even know will or will not happen doesn't seem very urgent.

And I also know that putting this rule into practice can be quite difficult.

I'll just give you one example to illustrate this. You paid all your bills, and you have $300 left this month. Which feels like the biggest priority?

- An airfare ticket to attend your college roommate's wedding. You've stayed in touch with her over the years, and the RSVP is due next week.

- To fund your savings account, which sits at $115.67.

You see, the only reason why the first one *seems* more urgent and important than the latter one is because you have an emotional attachment to it. Or because you are worried how it would make your friend feel. Or because of any number of other reasons that have nothing to do with being financially responsible with your money.

However, it's the second option that's actually more urgent.

The only reason why you don't naturally feel the urgency to save money is because the emergency you'll be needing that money for hasn't shown up on your doorstep yet.

Here's the thing: an emergency, by definition, pops up suddenly. It's unexpected, requires immediate attention, and generally costs money to deal with.

I hate to be all *"Monster at the End of This Book"* (a great read, by the way), but the fact is, you don't know what's coming down the pipeline. None of us do.

In my own life, I can say that every single one of our layoffs was a surprise to us. If I look back on each of those situations (with that elusive 20/20 vision), I can say that possibly one of them should not have been a surprise. But the other three times we were laid off? We didn't see it coming. Hurricane Harvey was a complete surprise, especially since when we flew out of town to visit my aunt and uncle, it hadn't even formed in the Gulf of Mexico yet. Losing our second vehicle in a flash flood just three weeks later? Complete surprise.

Single-event emergencies feel like unpleasant surprises. But what is not a surprise at all is that emergencies are going to come up for the rest of our lives. I can guarantee that.

This means that part of being a financially responsible person is prepping your finances for the eventuality of emergencies to come.

How to Rewire Your Money Priorities

When's the worst time to figure out that saving money actually was more of an urgent need and less of a nice-to-have than you thought? After you've been laid off. Or after you've had any number of other types of emergencies pop up.

In the last decade, while my husband and I have jumped from unexpected bills to unexpected opportunities, our savings account has been a constant in our lives.

That's because we know that during the good times when we seem flush with cash, we know that that money is not all ours to spend. Some of it belongs in an account to insure us against the hard times to come.

And that self-insurance? Well, it saves us from doing things like:

- taking on debt
- asking friends and family for loans

- freaking out at every possible hiccup and emotionally eating our way down from the edge

But saving money is certainly not a "natural" thing to do for most Americans. How do I know this? Well, national statistics show that 40% of households are just one $400 emergency away from either going into debt or living on their mother's couch. [1]

If something's not a natural state for us, that means that we have to create a habit and routine around it.

Ideas to Help You Start and Maintain the Habit of Saving Money

Habits are awesome. If you get the right set of money habits going, then you'll automatically set yourself up for fewer sticky situations.

So, how do you get into the habit of saving money in a way that it becomes painless and second nature to you?

Deprioritize a few things: Budgeting money is a zero-sum game. When you take from one category, you have less for another. Unless you're swimming in extra cash each month, you're going to have to deprioritize a few things you're spending money on (use the Eisenhower Matrix above) so that you can shift priorities to save money.

Use savings automation: Automating savings can hurt a little at first when you see less in your pay or feel less in your cash flow each month. But after a while, you reset your normal and you won't miss the money. You can automate on many levels—with your HR department by splitting direct deposits between your checking and savings account, setting up automatic withdrawals from your checking to your savings, or using the new crop of digital savings apps with algorithms to determine how much they can siphon out of your checking account each month to a secure, FDIC-insured savings account for you. My personal favorite is Digit.co.

Set up mini-rewards: Most people reward themselves at the end of a long savings goal. But you're trying to establish a new habit that has no end. You need to set up mini-rewards (what I like to call a cookie-crumb trail of rewards) that are meaningful but won't deter your savings habit. I've got a list of 365 ways you can reward yourself for around $5. And 133 of those rewards are actually completely free! [2] Mini-rewards are just a means to get you some sort of gratification from saving money. Because let's face it, you often won't get rewarded for your habit of saving money until an emergency hits and you benefit from what you've done.

While I would never wish an emergency on you or anyone else (and please, let's not send another one our way!), from my experience, I can tell you that they're much more manageable

when you have the money and means to pay for them. Flip your quadrants now, and you'll thank yourself for years to come.

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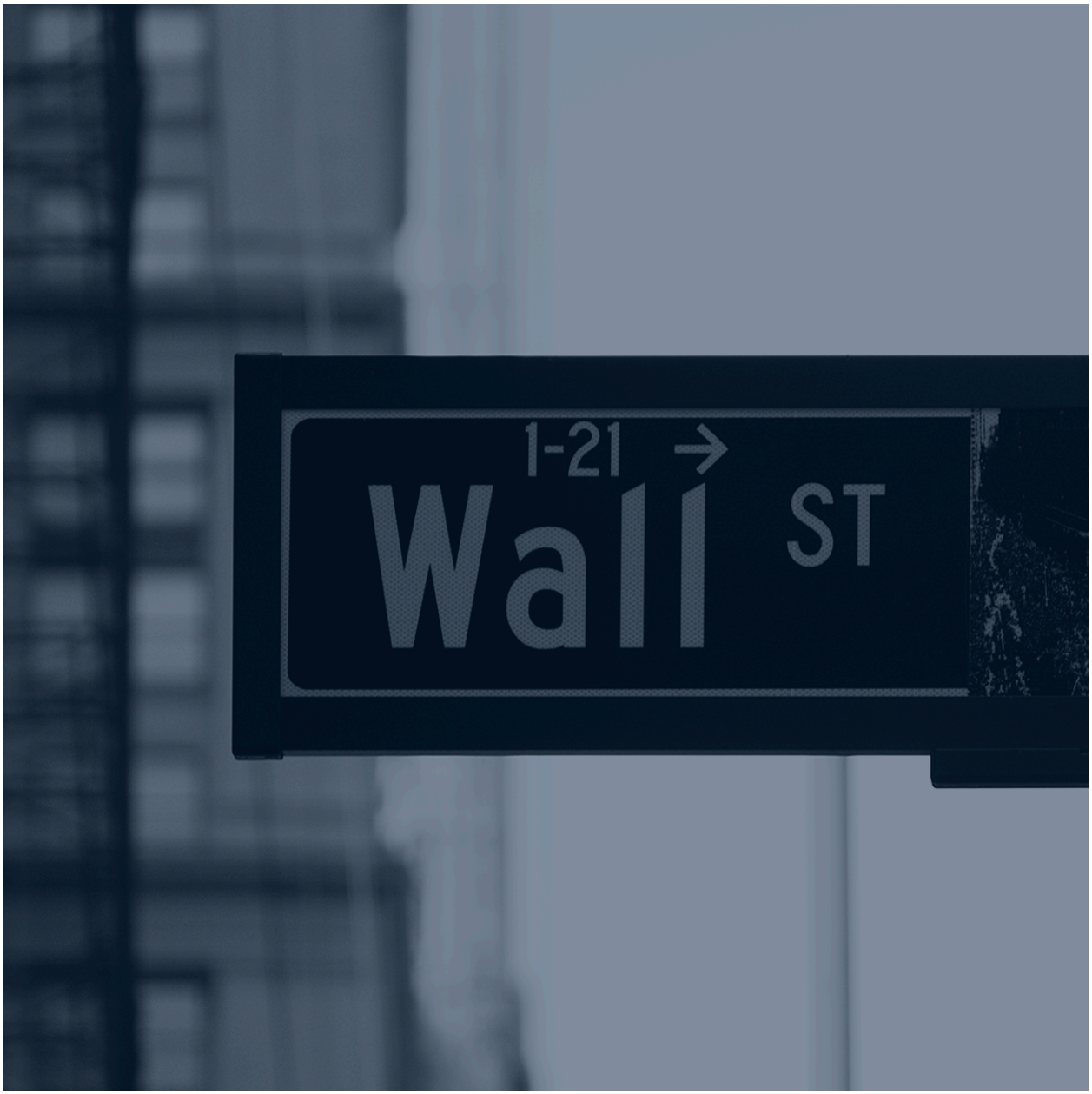
Amanda L. Grossman is a certified financial education instructor who helps chief family officers (CFOs) control their finances so that they can save money and live their life by design. She's a featured blogger at the *Houston Chronicle* and winner of a 2017 Plutus Foundation grant to create the Mt. Everest Money Simulation: A Kid's Money Educational Adventure.

How to Invest for Retirement

—Craig Stephens



If you live in the United States and you want to have enough money to live on in your old age, here's what you need to know.

One in five Americans are saving nothing for retirement, while less than a third are setting aside the recommended minimum 10% of their earnings. [1] Are you in those stats somewhere?

Starting to invest for retirement, or beginning to invest an adequate amount, is intimidating if you don't know how and have nobody to ask for advice. This article explains some of the basics and will help you decide what account to open, how to select investments yourself, and how to automate contributions every month so you're consistently investing for your future.

Why Invest in Retirement Accounts?

You've undoubtedly heard you should be saving for retirement. But what does that mean and how is it different from saving for a rainy day?

Saving for retirement involves investing in specific kinds of financial accounts. Money in these accounts is given special tax treatment by the government to encourage us to save for retirement. Once the money is in, it's meant to be left untouched until age 59½ or a penalty may be assessed. The rules are intended

to discourage early withdrawals and help you avoid spending the money too soon.

The favorable tax treatment varies depending on the type of account. There are three fundamental tax advantages:

- *Tax-deferred*—Taxes aren't paid on contributions or investment earnings until a future date, usually upon withdrawal after the age of 59½.

- *Tax-deductible*—When you contribute money to retirement accounts before paying any income tax on the money. For example, if you earn a $70,000 salary in a year and contribute $5,000 to an individual retirement account (IRA), the IRS sees you as someone who made $65,000.

- *Tax-free*—No taxes are paid on the earnings in a retirement account at all. That's the primary advantage of the Roth IRA.

The next sections explain the types of accounts that offer these tax treatments and recommend a plan for beginners with access to employer-sponsored plans and for those who do not.

Employer-Sponsored Retirement Accounts

According to the Bureau of Labor and Statistics, about 64% of private employers in America offer employer-sponsored plans, also known as defined contribution plans. [2] Common types are the 401(k), 403(b), and Thrift Savings Plan (TSP) for federal workers and the military.

If your employer offers a plan, it's the easiest way to begin investing for retirement. Enroll if you're eligible. Contributions reduce your taxable income, and the money grows tax-deferred.

Upon enrollment, you'll be asked to choose a contribution percentage, usually from 1% to 15% of your gross income. The money is automatically taken out of your paycheck and put into an account where it's invested directly into chosen mutual funds.

A mutual fund is a common asset class that groups several stocks or bonds into one investment. Buying one mutual fund invests your money into tiny portions of hundreds or thousands of stocks or bonds. Owning mutual funds is an easy way to diversify.

Employer-sponsored plans have a limited selection of mutual funds to choose from, depending on the program. Your program may have from a few mutual funds to dozens.

If your employer offers a matching contribution, be sure to contribute at least the percentage of your income required to receive the match. There are some limits to the amount you can contribute ($19,000 of your salary, or $25,000 for those age 50 and older), but those limits tend to impact high wage earners. Remember, contributions to an employer-sponsored plan cannot be withdrawn without penalty until the investor turns 59½. The intent is for your money to be there when you retire.

Individual Retirement Accounts (IRAs)

If your employer doesn't have a 401(k) or similar retirement plan, your best option to start investing for retirement is an IRA. IRAs are widely available at most investment services providers, both online and in-person at a local branch.

When you open your account at a mutual fund company or online brokerage, you'll need to choose either a traditional IRA or Roth IRA. The contribution limits for both traditional IRAs and Roth IRAs are $6,000 in 2019 or $7,000 for those age 50 and older. But the advantages of each account are different and mostly come down to regular versus irregular income. Don't let the decision keep you from moving forward. Here's what you need to know:

Traditional IRA

For those with a stable career and income but no employer-sponsored plan, I recommend selecting a traditional IRA because it reduces your taxes. The contributions are tax-deductible, and your investments grow tax-deferred, enabling your retirement nest egg to increase over time.

Beware, it's more challenging to get the money out of a traditional IRA without penalty, compared to a Roth IRA. If you take the money out before age 59½, you'll pay a 10% penalty plus taxes on the withdrawal. Wait until after age 59½ to avoid the penalty and extend the investment growth. When you do withdraw the money after age 59½, it's taxed as income.

If your employer offers a 401(k) or similar plan, you will not be eligible to contribute to a traditional IRA. But you may be eligible to also contribute to a Roth IRA.

Roth IRA

The Roth IRA is a better option for people with irregular income or those who do not pay a lot of taxes. Or, if you suspect you may need to tap your retirement savings before age 59½, the Roth IRA is a better choice.

When you invest in a Roth IRA, you use after-tax money. Since you contribute after taxes, there is no immediate tax deduction. However, because you already paid taxes on that money, your investments grow tax-free and you pay no taxes upon withdrawal.

Another nice feature is that you may withdraw your *contributions* to a Roth IRA at any time. But you cannot withdraw any earnings on the contributions without penalty until after age 59½.

High-income earners may not be eligible for a Roth IRA. Eligibility begins to phase out starting at $122,000 (modified adjusted gross income) for singles and $193,000 for married couples filing jointly in 2019. These limits do not apply to traditional IRAs.

Some employer-sponsored plans offer Roth 401(k) or 403(b) options.

How to Choose an IRA Provider

Choosing an IRA provider is the beginning of a long-term relationship. Finding the right mutual fund company or online brokerage on the first try is important, but again, don't let the decision keep you from getting started. The tax advantages are the same no matter what IRA provider you choose, so look at other criteria to make your selection. Criteria for selecting an IRA provider include:

- reputation
- investment selections
- low fees
- customer service
- convenience

In modern banking and investment services, location isn't as important as it once was. Most young people access their accounts exclusively online. The largest providers offer access through internet browsers and mobile phone apps. Some may have local offices.

If you prefer local resources, your bank may offer IRAs. But keep in mind, a bank's primary function is deposits and loans. Several companies specialize in investment services and will likely provide better customer service and lower-cost investment options.

Here's a list of some of the largest mutual fund companies and online brokerages. All offer IRAs and a variety of investment choices.

- Fidelity
- Charles Schwab
- Vanguard
- T. Rowe Price
- TD Ameritrade
- Merrill Edge
- E*TRADE

How to Make Contributions to Your IRA

Once you've decided on the type of IRA and a mutual fund company or online brokerage, it's time to contribute money and make investments. Do-it-yourself amateurs have a few simple options that can be set up quickly and automated.

Investors typically make IRA contributions one of two ways: either as a one-time annual lump sum or through a monthly recurring withdrawal from your bank.

Unless you have a large amount of cash sitting around, most new retirement investors should choose monthly recurring

contributions. These contributions can be automatically withdrawn from your bank account and directly invested in your investment choice. Providers call this an *automatic transfer and investment* from your bank account. Customer service can help you set it up—and now you know exactly what to ask for.

Set up a monthly contribution to your IRA on the same date each month, whatever amount you can afford without exceeding the annual limits. Then direct the contribution into your chosen investment.

Mutual funds are the simplest choice because investment gains are easily reinvested back into the funds. Most mutual fund companies and online brokerages have several no-fee mutual funds and ETF (exchange-traded fund) options, meaning you pay no fees for each purchase or sale.

What Investments Should You Choose for Your IRA?

Start by keeping your investment plan simple. Choose one or two investments to get started.

Two types of mutual fund investments are ideal for do-it-yourself beginners for both IRAs and employer-sponsored plans. They are *stock index funds* and *age-based target date funds*.

Some mutual funds do have initial minimum investments of $1,000 or more, so it's wise to verify low-minimum investments are available before you open an account. Once you make a minimum investment, subsequent investments have lower or no minimums.

Stock index funds

Index funds track specific parts of the stock market. Instead of trying to pick winners, investors accept that market-equivalent returns are good enough. For example, through an index fund, you can invest in the 500 largest stocks in the United States.

For broader diversification, *total stock market index fund*s are an excellent choice for the lowest cost. These mutual funds contain thousands of stocks.

There are some fees associated with index funds, but don't let that discourage you from getting started. For quick research, the fees are disclosed as the *expense ratio*. A U.S. stock market index fund should have an expense ratio below 0.20%. That means if you have $10,000 invested in the fund, you'll pay $20 in annual fees.

Popular total stock market index funds include:

- Fidelity Total Market Index Fund (symbol: FSKAX)—$0 initial investment

- Schwab Total Stock Market Index Fund (symbol: SWTSX)—$1 initial investment

- Vanguard Total Stock Market Index Fund (symbol: VTSMX)—$3,000 initial investment

Your employer-sponsored plan may not offer index funds. If that is the case, find a low-cost growth stock mutual fund to start.

For those who have less appetite for the undulations of the stock market, bond index funds are also available. You can expand your investment portfolio after you set up your first investment.

Age-based target date funds

Age-based target date mutual funds are a newer investment product that tailors the investments inside the fund to your age and expected retirement date. For example, if you are 40 years old and expect to retire at age 61, you can purchase a 2040 target date fund. The investments are intentionally chosen for people who will retire that year.

The ratio of stocks to bonds automatically changes as you age to lower your stock market risk. Target date funds are actively managed and have higher expense ratios, likely above 0.50%.

These types of investments are available in most IRAs and many employer-sponsored plans.

Conclusion

Avoid being unprepared for your post-working years. The most critical step is to get started investing as early as possible. If you take the first step of opening an account, you'll find the next steps are easier than you may have feared.

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Craig Stephens is the founder of Retire Before Dad, a personal finance blog about investing to retire at age 55, one year before his dad retired. Craig is a regular contributor to *U.S. News & World Report,* and his writing is featured on Business Insider, Seeking Alpha, and Yahoo! Finance. He holds a finance degree from Michigan State University.

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