Excerpts from Money for Life

Budgeting Success and Financial Fitness in Just 12 Weeks!

Steven B. Smith

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Dedication

This book is dedicated to those who have
a dream to pursue,
the vision to plan,
the courage to run,
the expectation to perfect,
and the persistence to win!

Advance Praise for Money for Life

"The beliefs, habits, and behaviors of the characters whose stories are told in *Money for Life* are something we can all relate to and learn from. Achieving long-term financial freedom is not complicated, but it takes discipline and effort. Make the 12-week commitment to live by the principles of this book. This is the first step in financial planning, and it can change your life!"

—Sheryl Garrett, CFP, Founder, The Garrett Planning Network, Inc., and Author, *Garrett's Guide to Financial Planning* and *Just Give Me the Answer$*

"Steven Smith's unique storybook approach in *Money for Life* to teaching sound budgeting principles is truly different from anything I've ever read. I was immediately drawn in to the real-life characters, who show the reader how to put into practice the principles that make budgeting really work. The 12-week course was easy to follow and can be done by anyone. I very much recommend this book."

—James P. Christensen, Ph.D., Author, *Rich on Any Income*

"*Money for Life* effectively captures the essence of solid budgeting principles and provides readers with excellent online tools for taking charge of their finances. I highly recommend this system."

—Judy Lawrence, Budget Coach and Author, The Budget Kit: The Common Cents Money Management Workbook

"Hundreds of books have been devoted to personal finance. *Money for Life* stands alone. In it, you will find not only all the fundamentals of proven money management skills but also the tools you will need to implement these principles in your life and begin to profit immediately."

—Ryan W. Christiansen, Financial Advisor and Vice President, McDonald Financial Group

List of Figures

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Preface

During the Great Depression, my grandparents, like many people at that time, found themselves in a very difficult financial situation. After moving to find employment, my grandfather worked hard to provide for the basic needs of his family. After receiving income for a few months, my grandfather again was in a very tough situation when the mill he worked for was forced to close. Several months behind on rent, in debt, and struggling to make ends meet, my grandparents moved back to the city where they had lived before.

When they arrived in Portland, Oregon, my grandfather looked for work and finally secured a position with a machining company. At that time, he and my grandmother had little to nothing. With steady employment, my grandparents set out to create some financial security. They adopted a cash envelope system of budgeting, and started living cautiously within their means. Each time my grandfather received a paycheck, he and my grandmother would plan their spending and divide their income between a number of envelopes labeled for each category of spending. When they wanted to purchase a major item, money was set aside in advance. When they decided to build a house, they saved the money for the lot and, once purchased, built their modest home as they were able to secure the needed materials.

My grandparents did not live a lavish lifestyle, but they always had the money they needed to do what they wanted. Later, when my grandfather retired, he and my grandmother were able to continue doing the things they wanted to do. My grandfather died many years ago, but the financial resources he and my grandmother were able to set aside in both savings and investments continue to support her increased financial needs—she now requires more assistance in her later years. Never once have her children been required to assist her financially, and she still has the financial resources to support her needs for years to come. My grandparents lived the timeless principles contained in this book and were financially fit as a result.

Contrast this story with that of my other grandparents. Born and raised during the same period of time, they too struggled during the Great Depression. However, their life was one of constant financial struggle, living paycheck to paycheck. When my grandfather died several years ago, my grandmother had few financial resources to meet her needs. For many years, her children had to assist her with the resources necessary to maintain her care.

Both sets of grandparents had modest incomes. However, the financial outcomes they achieved later in life were very different. While we may believe our financial choices will impact only us, clearly, choosing poor financial fitness can have a lasting impact on our immediate loved ones and our extended families.

These stories, together with many others, inspired my wife and I to adopt the envelope budgeting system soon after we were married. Many years have passed, and I have seen these simple, yet timeless principles positively impact my family and the lives of countless others. Ultimately, these success stories proved to be the motivation to develop a modernized envelope budgeting system for use in today's world. A CD facilitating a free 30-day trial of that system is included inside the back cover of this book.

This book was written to provide the vision, education, and motivation necessary for anyone of any income level to successfully adopt these time-tested financial principles. The story told within these pages is about a couple dealing with the complexities of managing personal financial resources in our society today. Their success can be your success as you adopt the principles they discovered through the wisdom of an experienced financial advisor.

My grandfather's life was a simple one, yet he was rich, because he always had the financial resources he needed to do what he wanted. Way to go, Oz, you will always be an inspiration to me.

Introduction

We live in a society driven by financial excesses. Unfortunately, the compensation for this lifestyle is often poor health, debt, or even the demise of the family. While the 1990s were arguably one of the most prosperous decades in history, collectively we are pursuing a course that could ultimately leave us financially destitute. Total consumer debt in the United States exceeds $1.8 trillion. In the early 1990s, according to the Economic Policy Institute based in Washington, D.C., average household debt was a staggering 80 percent of annual net income. Today, that number has grown to an unbelievable 109 percent. Not surprisingly, the number of those now seeking protection from creditors through personal bankruptcy is also growing at an alarming rate.

The resulting stress has severely impacted families. Studies show that financial issues remain a significant cause of contention in homes and one of the greatest contributors to divorce. While many of us may not directly experience personal bankruptcy or broken homes, far too many people are making choices daily that have the potential of bankrupting their financial future and destroying their ultimate happiness.

The good news is that despite the worrisome financial dynamics of our complex society, there are tools available to help reverse—or altogether avoid—the downward cycle of debt, daily financial stress, and frustration.

The goal of this book is to show you how you can become the master of your finances now and for a lifetime. With the explosion of new technologies over the past 20 years, we have found more and more ways to spend our money that remove us from the immediate impact of our actions. The problem is, despite the added convenience these technologies have ushered in, we still have to live with the consequences of our spending. *Money for Life* illustrates, through the fictional story of Ryan and Christine Richardson, how we all can use the principles of an envelope budgeting system, and how technology can improve, rather than erode, our awareness of the money we're earning, spending, and saving on a monthly, weekly, and even daily basis.

The story told in these pages focuses on one specific family. But the situations, issues, and conflicts could arise with almost any family in any circumstances—at any age, in any part of the country, and at any income level. Therefore, the lessons learned and solutions put into practice by the people in this story will apply to anyone who is having trouble keeping expenditures under control.

By putting this information in the context of a story, you will be better able to identify with, understand, and relate to the problems and issues described. To highlight the principles embodied in the storyline, a section called "Applied Principles" has been included at the end of each chapter. These sections will break down and explain what is going on in the characters' financial situations, and how they were able to use the principles of envelope budgeting and the new tools available to get their financial houses in order.

By combining a very typical story of financial difficulties with a clear explanation of the principles used to solve the problem, *Money for Life* can change the way you look at your money, and how you plan for your future and, ultimately, your life.

Prologue

Ryan and Christine Richardson once enjoyed a happy, carefree relationship. They are both college educated, make a good combined income, and are focused on successfully raising a family. As they and their family have grown, so have their responsibilities—they've experienced the joys of parenthood and owning a home, as well as the trials, tribulations, and headaches that come with them. They have never been particularly good at managing their finances or living within a set budget, but have always managed to get by. It hasn't been until recently that the situation has become intolerable, making it impossible for them to ignore it any longer. Like so many couples in their predicament, they have allowed financial stress and frustration to erode their happiness.

The following profiles provide relevant background information on Ryan, Christine, and the other characters involved in their story:

RYAN RICHARDSON

Ryan Richardson is a 35-year-old senior project manager for Medical One, a company that produces custom software for the medical industry. He manages several projects over the course of a year and is known for his ability to complete projects on time and under budget. Although he finds tracking—and mercilessly cutting—costs at his job natural, he has a much harder time putting this kind of thinking into practice in his personal life. He grew up in the small town of Lake Worth, Florida. His father made a good living as a sales rep for an industrial equipment company, and his mother worked at the town's only travel agency. While they enjoyed spending, his parents always seemed to struggle to make ends meet, and family finances were a constant source of contention. He met Christine while they were students at the University of Florida, and they married a year after graduation. They had their first child, a son named Chad, four years later, and a daughter named Jennie three years after that. Five years ago, Ryan completed his MBA degree after four long years of night school. It enabled him to get his current job at Medical One, but caused him and Christine to incur more debt in the form of a student loan. Ryan has always enjoyed spending money—"That's what it's there for" is his motto. He tends to purchase on impulse, buying the newest and most up-to-date technology. While he has never really been able to live within a budget in his personal life, Ryan always felt an obligation to be the family's provider and make the significant financial decisions.

CHRISTINE RICHARDSON

Christine Richardson is a 35-year-old elementary school teacher. She grew up in New Jersey and attended college at the University of Florida, where she met Ryan. Although she grew up in an affluent household— her father was a prominent attorney, and her mother ran the household and participated in numerous charity events—she never learned much about personal finances. Her parents were quite conservative about spending money, but never discussed financial matters with Christine while she was growing up. As a result, Christine tends to worry more than Ryan about spending too much money, despite the fact that she has never had a good grip on how much is too much. When she and Ryan were first married, they both worked—Christine as a third-grade teacher at a neighboring community's elementary school and Ryan as a sales rep for a medical supplies firm. From the time that Chad was born up until a year ago, Christine stayed at home to raise the children. Chad is now 8 years old, and

Jennie is 5. When Jennie entered an all-day preschool last year, Christine resumed her teaching career, this time getting a position as a fourth-grade teacher at an elementary school across town. At first, she was thrilled at the idea of returning to her profession, doing what she loves, and bringing home an extra income. Although she still loves teaching her nine-year-olds, she's bewildered by how, with all the extra money they now earn, they seem to have less money than ever and are getting even more into debt.

ROB GOLDMAN

Rob Goldman is a 36-year-old senior programmer for a networking software developer. He works in a highly competitive field and is very good at his job. Having worked at his company since graduating college, he's advanced into management and makes a good salary. Rob met Ryan at the University of Florida, where they were roommates, and has been friends with Ryan ever since. He married Susan, his high school sweetheart, while they were still in college, and they had their first child, Megan, shortly thereafter. Megan is now 14 years old and has a little brother, Danny, who is 8. Although Rob, like Ryan, has always felt responsible for the financial decisions of the family, he is also the one who worries more about money. He used to be much more on top of his family's finances, but since moving up in his job, he has taken on ever more responsibility at work, spending more and more time at the office. He grew up in a blue-collar family in which both of his parents had to work to make ends meet. He worries about the looming costs of college for their daughter, Megan, and about how they're going to ever put anything away for their retirement.

SUSAN GOLDMAN

Susan Goldman is a 35-year-old homemaker who takes an active role in her community's activities and social scene. She grew up in the same town as Rob and dated him her last two years in high school. She attended the University of Georgia, where she could still be relatively close to Rob. Susan has always been an extremely energetic, social person. It was in college where she first got into trouble with using credit cards. Always wanting to participate with her friends in going on trips, buying clothes, and having nice things, she maxed out three credit cards by the end of her sophomore year, and had to have her parents bail her out with a loan. She was careful with her credit cards after that, but as Rob moved up in his company, Susan felt more relaxed about spending money on the things she wanted. She loves feeling financially independent, and will sometimes lie to Rob about the cost of purchases she's made because she knows he would get mad if she were to be completely honest with him. Although she and Rob have known each other for most of their lives, they rarely have discussions about money and budgeting. It was not something they ever talked about before getting married, and it's only been a source of friction since. As a result, they tend to avoid the subject until it becomes a crisis.

SHIRLEY CHANG

Shirley Chang is a 32-year-old administrative assistant working for a financial services firm owned by Tom Maxwell. She is a single mother of two boys—13-year-old David and 9-year-old Sam. She and her husband, Russell, divorced four years ago, and although he's tried to keep up with the child support, he's been laid off from two jobs in the past few years. After they separated, Shirley had to go back to work. And although she earns a good living working for Tom, she found out early on how tough it was financially trying to raise two children on her own. Shirley has been using an envelope budgeting system recommended to her by her boss, Tom, for the past three years. She met Christine and Ryan Richardson five years ago when her son Sam and the Richardsons' son Chad were in the same preschool. Shirley became good friends with both Christine and Ryan soon after. Whenever they could, they would pitch in to help each other with the children, and Shirley and her boys have become a regular fixture in the Richardsons' home most weekends for brunch and to spend time together.

JOHN AND PATTY RICHARDSON

John and Patty Richardson are the parents of Ryan Richardson and live one town over from their son and his family. John, who has been a sales rep in the industrial equipment business for close to 40 years, is nearing retirement. Patty stayed at home to raise Ryan and his brothers and has enjoyed the perks of working as a travel agent since the boys moved out of the house. Neither John nor Patty has ever kept to a budget on a sustained basis. They did manage to put some money into investments for their retirement, but most of that went into mutual funds that have not performed well for them. Having grown up in the 1940s, John took on the role of financial decision maker in the household. Patty, although more of a saver than John, never felt as though she should voice her concerns about their finances and always took a backseat to her husband when it came to money. John and Patty still take frequent trips and feel that they deserve to splurge on themselves. On top of their spending habits, they still have a substantial amount of debt from car loans, their home mortgage, and credit cards. They are approaching retirement with much trepidation at the thought of having to live within a fixed income or continue to work.

WALTER AND LUCY HOWARD

Walter and Lucy Howard are a retired couple living comfortably in the home in which they raised their five children. Walter, who was a technician at the power plant, and Lucy, who was a librarian, both have been retired for a little over ten years. Both grew up during the latter days of the Great Depression and always felt conscious of holding onto their money, as they knew it could all be lost in an instant. They still use a traditional envelope budgeting system and have for more than 30 years. Today, they have a tremendous net worth because of the spending principles that enabled them to save and thus make investments in stocks, bonds, and real estate. They were one of Tom Maxwell's first clients back in the early 1970s and have been with him ever since. Their use of an envelope budgeting system enabled them to get out of debt and turn their finances around. They are now able to enjoy their retirement, planning trips to see their grandchildren or taking cruises without having to wonder whether or not they can afford it.

TOM MAXWELL

Tom Maxwell is a certified financial planner who has been working with individuals and families to plan their financial futures for more than 30 years. Because he works with so many families, he knows that the key to having a secure financial future is being able to keep expenditures in line with income. He's made it his mission to help people first figure out how to stick to a budget, and then figure out what to do with the money that's left over.

*   *   *

While Ryan and Christine and all the rest of our cast are fictional characters, the financial dilemmas they face are based on the true-life experiences of many people. And like our protagonists, many are finding that there really is a way to regain control and successfully manage their finances in today's society. This book was designed for those seeking a blueprint for achieving long-term financial fitness. Here are just a few of the benefits financial fitness can bring:

- As you take your next vacation, you know that it is completely paid for before you leave.
- The next time a major appliance needs to be replaced, you have the money already set aside.
- You never need to worry about checking the account balance at the bank before you pay a bill.
- You look forward to making decisions regarding the education of your children, because you are actively saving money for this purpose.
- You spend time planning and anticipating retirement, because you are debt free and prudently investing money to fund the lifestyle you want to have.

Chapter One

The Final Straw

The stores were filling up with frantic shoppers. With only four days until Christmas, people were buying last-minute gifts and decorations with little regard to practicality . . . or price. Christine and Shirley were battling the toy store crowds with great enthusiasm. Shirley carried a few boxes in her arms while she attempted to help her friend guide an overloaded cart through an aisle bursting with bright pink.

"Jennie's only five years old," gasped Christine. "Why does her *doll* need a $40 plastic minivan?"

Shirley smiled. "I'm glad David has outgrown that I-need-it-now stage. I'm still working on Sam. Of course, now all they want are video games and DVDs. Come to think of it, I know I'm spending more this season than I ever did when they were little. Maybe I should be envious."

"Oh, I don't think you have anything to be jealous of, Shirley. I still can't believe that you're nearly done with your Christmas shopping and you haven't overspent your holiday budget. Plus, I still have to worry about sneaking the gifts from Santa into the house, not to mention the woes of spelling tests, swimming lessons, junior high, dating . . . "

"You're right, you're right. I'll have to remember to remind you how easy you have it once Chad becomes a teenager."

"Touché," Christine laughed. "I guess the stress never stops, does it?"

Just as the cart was about to overflow, Shirley dragged it to a miraculously open cash register. She placed her items on the counter, removed some cash from a red-and-green envelope, and handed the bills to the clerk. Christine started unloading her loot onto the conveyor.

"Speaking of stress," she continued while Shirley picked up her change and purchases, "how am I ever going to fit all this stuff into the car?"

"Weren't you talking about getting a new SUV?"

"You mean, other than the one I'm buying for Jennie?" Christine teased. "Actually, since Ryan just got a raise, we were thinking about it. Things are going really well for him over at Medical One. And, since I started back to work, it feels like we're finally able to afford things. It was really tight this summer, though. And you know Ryan, he loves having the latest and greatest."

Christine handed over her credit card and waited to sign her name on the receipt. The cash register whirred and whirred. The young girl behind the counter formed her face into a pout. "I'm sorry, ma'am, but do you have another card? Your MasterCard doesn't seem to be working."

"No problem," Christine said with a weak smile, as she handed over her Visa card to the girl. "Sorry about that, this one should work."

"I'm sure it's not your card. It's probably our computer—I think it's just exhausted after this crazy day."

She took Christine's credit card and turned back to the register. Christine stood, tapping the pen against countertop. Shirley started packing the bags and boxes back into the cart. The register whirred again. Still, a receipt did not appear.

The clerk turned back to Christine, and handed her Visa card back to her. "I'm sorry, ma'am, but it's saying your card is declined."

"Could you please check it again? I know there's nothing wrong with the card."

"Let me call my manager over," the girl said, avoiding eye contact.

"What's going on?" asked Shirley.

"I don't believe this," said Christine, getting exasperated. "I know we have plenty of money left on that card. I really don't need this right now." Shirley patted Christine on the arm as the manager walked past a long line of anxious customers.

"Is there something I can help with?" the manager, a man a few years younger than Christine, asked.

"I can't get her card to work," the girl said. "I don't know if it's the machine or what."

"Can I have your card, ma'am?" the manager asked.

If one more person calls me "ma'am," Christine thought, I'm going to scream.

The manager ran the card through again and waited. After whirring for a minute, the machine stopped and displayed the words CARD DECLINED. He handed the card back to Christine and said, "I'm sorry, but, for whatever reason, it's saying your card is declined. Do you have another card you could use?"

Christine cringed, knowing that the one card she did have left probably wouldn't have enough on it to cover the purchase. But her only alternative was to write a check she was sure they couldn't cover, and she wasn't about to do that. "Um, well," she said, digging back into her purse with shaking hands, "I do have a store credit card that I think should work." She found the card and turned to Shirley, saying, "I don't like to use it that often, but I guess we can make allowances today." To her great relief, the card went through, although she wasn't sure how. *Did the store raise our credit limit?* she wondered.

Back in the car, with the day's packages loaded in the trunk and seats behind them, Christine wondered what Shirley must be thinking. Here her friend was, single with a child nearly in high school and one in fourth grade, and she was still able to pay cash for all of her Christmas gifts. *Shirley always seems to have it together*, Christine thought. She always knew how much she could spend and, yet, she did not seem worried at all about the looming costs of college. Christine thought about all the expenses she had yet to pay before Jennie and Chad grew up—Chad was only eight years old, and Jennie was just in kindergarten. Their family was so young, and they were earning two incomes. *How could this have happened?* Christine dropped Shirley off in front of her new, tidy bungalow. As she backed out of the driveway, she tried to calm herself down. She called Ryan on her cell phone to see if he knew anything about why their cards weren't working.

*   *   *

Ryan looked at the clock on his desk. It was 5 PM. With Christine and the kids on Christmas break, they should be home now. He couldn't wait to give Christine the good news. It had been a good day at Medical One, a company that developed custom software for the medical industry. Ryan, as the senior project manager, had delivered his projects on time and under budget. As a result, senior management had approved a $2,000 year-end bonus on top of his recent 6 percent raise for the coming year. Ryan's salary would now top $64,000 a year. It was great news. He felt even better about the Christmas gift he had bought for the family. Maybe he would surprise them with it a few days early. They could celebrate the good news together. He reached for his bag.

Suddenly the phone rang. It was Christine, calling from the car.

"Hi, honey," she said, trying to control her emotions. "I was doing some Christmas shopping and the strangest thing just happened: neither our MasterCard nor our Visa card worked. I know that I haven't paid one of them yet—I was going to pay some bills tonight—but I thought the Visa would be OK. I'm just a little shaken. Do you know what could have happened?"

Ryan sighed and leaned back in his chair. He had charged the family's gift on the Visa card, since it wasn't one Christine used very often. He hadn't told her about it yet, but he didn't think it would be a problem. He had to wonder, though, why on earth the MasterCard was declined.

He started to explain, hoping not to lose his Christmas cheer. "Well, Christine, I was hoping it would be a surprise, but I did put a gift for the family on the Visa card yesterday."

Christine paused. She knew Ryan's gift-giving habits were extravagant, but he did just get that raise. He couldn't have charged *that* much. *There must have been an error with the Visa company,* she thought. "OK, well, before I sit down to do the bills, can you tell me what you bought? I'm going to have to call Visa and see if our number has been stolen. I'll need to tell them how much was on the card already."

Ryan didn't want to blow the surprise, but he also doubted there was a stolen number or an error with the credit card company. "Well, it wasn't cheap, but I know I didn't exceed our limit. We were only carrying about $3,000 on the Visa, according to the last bill. And I didn't think you were using that card. Did you make any purchases with it?"

Christine stiffened. "Well, I've had to do most of the Christmas shopping myself," she said, a little defensively, "and you know I needed a new coat."

"So how much have you charged on it?" Ryan asked.

"I don't have the exact total in my head, Ryan," she snapped. "But I didn't think it was going to be enough to max out the card. I thought we had more on the MasterCard, too, but apparently we didn't."

Ryan winced, remembering that he'd put his new golf clubs on the MasterCard.

"Somehow, between your big gift and my other shopping," Christine said, "we've maxed out the Visa as well."

The silence on both ends lasted for what seemed like an eternity.

"So how much *did* you spend?" said Christine finally. "And *what* did you get?"

"The important thing is I thought this gift would be something the whole family could enjoy," Ryan said, forcing himself to sound happy. "I bought us a 36-inch HDTV. Merry Christmas, honey. *Honey?*"

The line went dead.

* * *

Christine picked up Chad and Jennie from the babysitter's house and headed home.

What are we going to do with a new TV? she wondered. And how are we ever going to get on top of our finances if we don't even discuss major purchases together?

Before the raise and Christine's return to work, she and Ryan knew that the strain of living paycheck to paycheck was wearing on their relationship. It seemed no matter how much money he made or how hard they tried to save, they could not get ahead. Christine had loved teaching before she had had Chad and decided to stay at home. She did not regret that she and Ryan had opted to live on only one income, but she did miss her job and the money it provided. Two years ago, however, they had maxed out all their credit cards and sought relief in a home equity loan. At first, they had felt liberated from so many payments, but gradually their credit card balances had returned—the only difference was that *now* they had a home equity loan to pay off as well. With Ryan's career taking off and Jennie now in school, Christine figured that the money she would make back at teaching could be used for some of the "extras" they used to worry about buying before.

She was less upset about the television itself than she was about Ryan's decision to keep it from her. While Christine handled the day-today finances, Ryan focused more on the long-term decisions that guided them financially. After all, that's what he was doing so successfully at Medical One. How was Christine supposed to have any control over the checkbook if Ryan didn't tell her everything she needed to know?

Back at home, and with the kids settled in the family room after a light dinner, Christine sat at the kitchen table and tried to make sense of their credit accounts. She totaled the checks she had written and then carefully recorded her most recent check from the school. She sat there, staring at the statements in her hand. Tears welled in her eyes with the realization that they couldn't even cover the minimum amount due to MasterCard before the payment deadline.

It was only two years after the home equity loan and their cards were maxed out again. She was going to have to make a late payment, because they just didn't have the money. Christine thought of the new television that must be sitting inside the house somewhere. Yes, they could return that, they could forget the plans for the new SUV, they could even cut back on Christmas gifts, again, but where would that get them?

We're right back where we started, she thought, or worse.

* * *

Ryan sat in his car in the driveway, hesitant to go inside the house. He could see Christine sitting at the table, most likely paying the bills and figuring out a way for them to start a new budget. It seemed that she did that every month. Every month they made plans to save and to track their expenses, but it never seemed to work.

How could he successfully manage million-dollar projects at the office and yet never get ahead at home? Why weren't he and Christine out of debt yet? They were both intelligent and had college degrees. They were both earning decent money. Managing it just couldn't be that difficult. But somehow they seemed to replay the same scenarios over and over: she worried about how they spent, and he always reassured her. He had steered them through buying their first and second homes, purchasing their cars and furniture, and making plans for retirement and college savings that they would someday implement.

The burden of debt began to settle on him. Where did it all go? Music lessons, new clothes, school events, pictures, family gifts, vacations— it never ended. Yet, all of these things seemed important, even necessary. His family deserved the best. It was up to him to provide it for them. If they were really in trouble, what more could he possibly do?

This is crazy, Ryan thought as he sat looking at the glowing lights from the windows of his own home. *What am I going to say to Christine? How am I going to fix this?*

He knew that he ought to go inside, but instead he sat there thinking. They had met during his second year at the University of Florida and married three years later. She was an elementary education major. He was pursuing a degree in marketing. Christine's parents still lived in New Jersey, where she grew up. Her father was a successful attorney and partner with the firm Madison, Wilson, and Fisher. Christine's parents were careful with their money—their fixation on their household budget was, Ryan thought, unnatural. But they did dote on their daughter. On her 16th birthday, her father had given her a new car, and when she graduated from high school, her parents had flown her and her best friend to Europe.

Ryan, on the other hand, had grown up in Lake Worth, a small city in southeastern Florida, where his father was a sales rep and his mother was a travel agent. His parents made a good living, but they enjoyed spending what they had, when they had it. The souvenirs they bought on their many vacations alone would probably equal a modest full-time salary. Ryan had relied on a part-time job to get him through his four years of college.

One of Ryan's biggest concerns with marrying Christine was a feeling that he might not be able to provide her with the lifestyle she had been given by her parents. They had talked about it, and she had assured him that material things were not required to make her happy. "Just let me know you care about me—and about my needs. As long as we're working together and can talk things out, we'll be OK," she had assured him.

And that was the thought he took with him as he walked into the house.

* * *

Christine looked up at Ryan when he walked through the door. She could tell by the look on his face that they were both in the same place. She hated it when they discussed money—they seemed to agree on nearly everything else. What was she supposed to do? She never knew for sure what they could or couldn't afford, and she couldn't stand not being able to offer a solution that worked. Things had gotten so far out of hand that she was more confused than anything else.

"I'm sorry," she said. "I just wish that we could be more honest about the situation we're in."

"Oh, honey." Ryan pulled her into his arms. "I know you've been trying to figure this out for a long time. I guess I just thought that this gift would make you happy."

They sat down across from one another at the table, and Christine reached for Ryan's hand.

"I actually do have good news tonight," he said, "so we can celebrate something after all." He told her about the meeting with senior management and the $2,000 bonus.

"That's wonderful," exclaimed Christine. "It will help." She handed him the statements and the latest round of unpaid bills. He studied each item in front of him and came to the frightening realization that he had no easy answer to their predicament. Suddenly, as he sunk down in his chair, he felt the overwhelming pressure that had brought Christine to tears a few hours ago. There was no way they could continue on like this for much longer. They were balanced on a very thin financial line, and that line was about to break unless they made some immediate changes.

He looked up from the piles of envelopes and saw Christine staring into the other room. He followed her gaze. After 12 years of marriage, he could imagine what she was thinking. Over the years, they had worked hard as a couple. Graduating from the university; landing good jobs with promising futures; raising two beautiful, bright, energetic children; buying a house and integrating into a new neighborhood—these were the things they had always wanted. Yet, somehow, they had allowed finances to become a major hindrance to their happiness as a family and as a couple.

"Do you recall when we rented our first apartment across town?" she asked.

Ryan smiled. "You found out that you got your first teaching job and rushed out to that place across the street to buy bulletin-board supplies."

"And you went out to celebrate our two-income status by buying a used convertible."

"Our first debt."

They looked at each other. "Well," continued Christine, "aside from that, we were cautious in those days. What happened? Why don't I feel like this is working?"

"We were supposed to have saved a substantial nest egg by now," Ryan said. "Instead, we have $10,000 in consumer debt on top of a mortgage, a home equity loan, a car loan, student loans . . . "

"Ryan, we can barely pay our bills. I'm afraid to even collect the mail tomorrow with the threat of another one showing up. I've already started back at work. How are we going to get more money?"

"Look, Christine, I just need more time. Things are going well at Medical One, and with potential bonuses, I'm sure we can make enough soon to find a way out of this debt."

"But what do we do in the meantime . . . when the bonus you got today runs out?" Christine asked. "Do you think we could qualify for a higher limit on our credit cards now that I'm working?"

"Probably, but more debt? That will hardly help," said Ryan.

"It's just temporary."

"We said that a year ago. In the meantime, we've maxed out two more credit cards. Obviously, if we're still racking up debt and can barely pay our bills, we must be spending more than we're earning."

Christine stared at Ryan. "You're probably right," she said.

He nodded.

"When I last talked to my mother," said Christine, "she mentioned their standing offer to give us money to help with the kids' needs."

"Oh, great," Ryan snapped. "That's the last thing I need right now. I'm sure your dad will be smitten with me even more then."

"Is that what this is all about? Impressing my father?"

Ryan looked away. "I just want your parents to know I can take care of you. I don't want your father to think I can't give you what you deserve."

"What I *deserve?* What does *that* mean?" Christine looked at him with disbelief. "Is that why you insist on buying all these big-ticket gadgets and pricey gifts? Are you just trying to look impressive?"

Christine had oversimplified the problem, but he had to admit that she had hit a nerve. Growing up, many of his friends' families had been in a better financial position than his. Sure, he wore the name-brand clothing and sported the necessary extras that were popular through the years, but deep down he always felt that his friends' parents were different: they could afford what they gave their children. Even when he was little, he guessed that his parents were spending more than they could afford. Ryan's parents never skimped on anything, but the atmosphere of living hand to mouth because of it was more obvious to their children then they could have known. Ryan didn't want his own children to feel the same way, but was he just repeating the habits of his parents? Were he and Christine sacrificing their future financial security on the altar of today's wants and needs?

"Christine, I'm not a psychiatrist. How do I know why I do what I do? We have a financial problem to solve. We just have to find a way to get some control over the situation."

"What is important to me, though," said Christine, "is feeling that we are working together on this."

"And we do work together, at least," Ryan admitted, "most of the time. But it's obvious that whatever we're doing right now isn't working. You know, I think a big part of our problem is we seem to be making our decisions in a vacuum, without knowing the short-term and long-term impact of what we do.

"And when we try to manage our spending, something unexpected always seems to throw us off.

"You know, Christine, as much as I hate to admit it, I think it's time we talked to someone about this. I don't think either one of us has the answer anymore."

Christine looked away, but nodded her agreement. "Ryan, we can't let money keep dragging us down. Let's work to do whatever is necessary to get control of all this. We have so much, and I'm tired of worrying about our finances. I just want things to get better."

Ryan stood up and placed his hands on Christine's shoulders. "So do I."

* * *

Shirley and her two boys, David and Sam, arrived the next Saturday, as usual, for brunch. Not sure of how it started, the regular weekend brunch with Shirley and her kids had been going on for nearly as long as she had been friends with Christine and Ryan.

Christine was playfully tugging on Ryan's shirt as he mixed up some waffle batter. She dabbed a bit of the batter with her finger and put some on his nose. "Hey!" Ryan said, and tickled Christine's side. Shirley saw them laughing and horsing around as she closed the patio door behind her.

"Wow," Shirley said, "you two seem to be in an extra good mood today."

"It's another beautiful day in the Richardson household," Ryan grinned.

Christine rolled her eyes as she handed her friend a cup of coffee and sat down at the breakfast table. "Yep, I guess we are feeling pretty good," she said.

"Well, what's up?"

"Oh, well, you remember our shopping trip last week, no doubt." Christine said, and Shirley nodded. "Ryan and I finally decided that we're going to do whatever needs to be done to get out of debt. It's just been a little too hand to mouth around here to feel comfortable anymore."

"Good for you," Shirley said. "I think that's a great idea. And, if you don't mind, can I give you a piece of advice?"

Ryan looked up from his newspaper. "Shirley, you're probably the only person who could give us advice on this. You have to be the most financially organized person we know."

"Maybe," she said. "Of course, it always helps to work in the office of a financial advisor. You know, if it hadn't been for my opportunity to work in Tom Maxwell's office, I'm sure I'd still be trying to work eight other jobs just to make ends meet. Aside from what I've been able to pick up from just doing my job, Tom has taught me how to pay off my debt while saving for the future. You should talk to him. I'm sure he could help."

"That's right," said Ryan, "I'd forgotten about your boss, Tom."

"After the divorce, getting a job working for Tom was a godsend," said Shirley. "If anyone could help make sense of your finances, it's Tom. I've been using his system for years now, and it's made a huge difference for me. His approach is different because he believes that people need to develop the foundation to achieve financial success, which he says is good spending management and budgeting. He believes this is an important first step before he advises them about investment plans and other things. Tom does this for a very reasonable fee, because he knows if he can help you at this level, he will keep you as a client and you will work with him when you start making plans to invest the money you are saving."

"If we’re really going to change our spending habits, Ryan, we should absolutely talk with an expert," said Christine.

"Well," said Ryan, "I suppose if you think he’s a good guy, Shirley, we should at least hear him out." Ryan pulled the to-do list off the refrigerator and added Tom’s number to the list. The sooner he and

Christine could get things on track, the better.

Chapter Two

A Bold Move

The New Year started for Ryan and Christine with a great deal of financial insecurity hanging over their heads, and yet they were looking forward to the future more than they had in quite a while. Perhaps it was overcoming their mutual fear of discussing their finances with each other, or maybe it was the fact that Shirley had provided a tangible lead by referring them to her boss, a capable financial advisor.

Whatever it was, Ryan had marked down in his day planner a reminder to call Tom Maxwell on January 2, right after the holidays. He hated to think of their newfound resolve to get their financial house in order as a "New Year's resolution"—how many of those had he made and broken in his lifetime? But he felt that he and Christine had turned a corner. They had come to the realization that they could no longer continue to spend as they had. But, he also knew they needed a system that would work with their way of life. When they had tried different approaches in the past, they always ended up like fad diets—they worked for the first few weeks, but eventually, old habits would drift back and they would be right back where they had started, only deeper in debt. Hopefully, Shirley's boss would be able to show them a better way than what they'd already tried.

When Ryan called Tom Maxwell's office during a morning break, he heard Shirley answer the phone.

"Tom Maxwell's office," she said.

"Hey, Shirley," said Ryan. "I'm following up as we discussed on Saturday. We want to try and set up an appointment with Tom."

"That's great, Ryan!" Shirley said. "If you guys are able to come in next week, he has availability Wednesday at 2:00 or Thursday at 4:00."

"I think Thursday afternoon will work best. Can you pencil us in?"

"Sure," she said. "Hold on a moment, Ryan, and I'll put Tom on so you can talk over your situation with him."

"Thanks a bunch, Shirley."

Tom Maxwell, a certified financial planner with more than 30 years' experience helping individuals and families build their nest eggs and secure their financial futures, was a down-to-earth, gregarious man. He believed in taking care of first things first—which is why he always worked with his clients to address their spending habits before moving on to how to invest their money. You simply had to make a habit of spending less than you earned. It sounded simple, but Tom knew that it was anything *but* for most people, especially nowadays with easy credit, online shopping, debit cards, automatic withdrawal, and so on. There were a million ways to spend money without ever having to think about the consequences. But the consequences would come around, whether you thought about them or not. Fortunately, Tom knew how to help his clients overcome these obstacles to financial fitness. Years ago, he developed a coaching service in his practice to help families build the foundation for financial fitness. His service focused on educating people with respect to the real value of implementing a sound budget and spending management plan. He found that if clients went through this process before developing their long-term financial plan, it made a significant difference in their ability to achieve financial success.

He picked up the phone halfway through the first ring. "This is Tom."

"Hi, Tom. This is Ryan Richardson. I just made an appointment for my wife and me to meet with you. Shirley transferred me to you for an introduction."

"How are you, Ryan?" Tom boomed. "I have to admit, I've heard quite a bit about your family over the years. Shirley is quite a fan of you and the kids. She mentioned that you might be calling sometime after the New Year."

"Yes," Ryan responded. "I think push has finally come to shove for Christine and me. We had a bit of a cash-flow situation right before the holidays and, well, let's just say we had more than one heated conversation about it. I think we're really ready to make a change. We just don't want to live with this hanging over our heads any longer. Of course, I'm sure you hear this all the time these days, especially after the holidays."

Tom smiled. He knew Ryan was making a bold move just making this call. "Ryan, I can tell that you and Christine must have thought a lot about this before you made this call. You've already scheduled an appointment, so it sounds like you are well on your way to making a commitment to managing your finances. So many people make that a resolution but never actually take a proactive step of doing something about it. You're halfway there just by having this conversation and deciding that you may need some assistance. I'd be happy to help put you at ease with your financial situation. I think that once you've decided to make a change in the way you think about money, the next steps will follow naturally."

"Thanks, Tom," Ryan said. "At ease is exactly where we want to be."

*   *   *

For their first meeting, Tom requested that Ryan and Christine bring statements and information about each of their consumer debt accounts, car and home equity loans, mortgages, and any other debts they were regularly paying, along with information about their savings and investment account balances. Ryan almost laughed when Tom mentioned savings *and* investment accounts. *He's going to think we are complete failures when he looks at how little we have accumulated over the past ten years,* Ryan thought.

As Ryan and Christine stepped off the elevator into the reception area decorated in muted, warm tones, they waved to Shirley, who was sitting in front of a computer screen at her desk.

Shirley had anticipated their arrival and had coffee waiting for them. She thought they might be a little nervous about meeting with Tom.

"Thanks so much, Shirley. You're the best," Ryan said.

"No problem. I just heard from David," she said. Ryan and Christine had left Chad and Jennie with Shirley's 13-year-old son David, who was very responsible for his age. "He said the kids just had a snack and are doing fine. I'm glad it worked out with him watching Chad and Jennie.

It sounds like they are all having a ball."

"Well, I'm glad someone in the family is," Christine said with an ironic smile. "I guess we're just hoping your boss doesn't think we're a couple of idiots when he sees the state of our finances."

Shirley smiled. "You're not the only newcomers to walk in with a bit of anxiety. It's not the easiest thing to do. I should know. You know how hard it was for me to get on top of things after Russell and I split up. But Tom's a good guy, and I think you'll be happy with him and what he has to say."

Ryan looked around. On the lamp table were copies of a number of personal finance magazines. On the wall was a large, framed chart titled "The Success Cycle." Before Ryan could digest the detail on the chart, Tom walked in and greeted them.

"You must be the Richardsons."

"Yes." Ryan rose to shake his outstretched hand. "I'm Ryan, and this is my wife, Christine."

"Hi, how are you?" he said and shook Christine's hand. "Please call me Tom. Ryan," he said, "it's great to put a face to the voice. Nice to see you both." He led them into his office, where he invited them to sit at a small conference table. "Let me start by telling you a little about myself and why I love my work," he began. He explained that he had received a finance degree from the University of Michigan in 1967 and for the past 32 years had been working with clients who, from an income perspective, could be described as middle-class Americans. Typically, his average client began working with him at the age of 35 or 40 and had a household income of less than $100,000.

"We've come for some professional advice," said Ryan, "and it certainly sounds like we fit your profile. We've tried for years to stick to some kind of a budget, but we keep sliding back into our old spending patterns. I guess old habits die hard."

"Let's see if I can help. To begin, I'd like to know something about your financial history. Specifically, tell me about the financial environment you grew up in and your financial history during your marriage."

Ryan began by telling Tom a little bit about his background, where he grew up and went to school, what his parents did, and so on. He had to admit that, if he was really honest about it, his parents were never all that good at managing their money, and that he probably learned some bad habits from them when it came to personal finances. He then discussed the money problems he and Christine had had since getting married, and how they never seemed to get better no matter how much more they made. Christine filled in the blanks as Ryan told their story, and then talked about her own upbringing.

"My parents were always good at saving money and managing their finances," she told Tom, "but it always seemed so much simpler to me when I looked at their situation compared to ours. And not because we have less income—it just seems harder to keep track of everything these days." Tom listened intently and asked a few clarifying questions along the way as Christine described how their predicament had worsened over the past few months, despite the added income.

Half an hour later, Tom said, "I think I have an adequate picture of your present situation. For the next few minutes, let's see if we can put together a statement of your net worth."

Ryan and Christine provided the details, and Tom took out a blank sheet of paper and scratched out the statement. On the top part of the sheet, he listed all of their assets: the market value of their home, cars, furniture and personal property, savings account, checking account, and 401(k) account. Below that, Tom listed all of their debt obligations, including their primary mortgage, home equity loan, car loan, credit card balances, Ryan's student loan, and miscellaneous consumer debt. Tom totaled both columns and then subtracted the debt obligations from the assets. At a quick glance, Ryan and Christine had a present net worth of about $20,000. (See Figure 2.1.)

FIGURE 2.1 - Richardsons' Net-Worth Statement

Richardsons' Net-worth Statement

ASSETS	
House	$225,000
Savings	$2,300
401k	$5,000
Autos	$17,400
Misc. Personal Property	$15,000
TOTAL ASSETS	$264,700
LIABILITIES	
Mortgage	$206,320
Home Equity Line	$9,875
Auto Loan	$14,750
American Express	$4,855
Visa	$4,350
Student Loan	$3,950
Department Store	$435
TOTAL LIABILITIES	$244,535
NET WORTH	$20,165

Ryan and Christine stared at the paper on the table. Considering the nice home they owned, they had assumed they were worth much more. But the numbers told the truth, and they could not hide from it. After 12 years of marriage, they had managed to accumulate only $20,000. Their cash-equivalent assets, including assets from a 401(k) plan and a savings account, totaled less than $7,500.

Not exactly enough to retire on, Ryan thought as he looked nervously at Christine.

"That's not bad," Tom said. "You actually have a positive net worth."

Ryan glanced at Tom in surprise.

Tom continued, "Let me share some information that you may find startling." He began to lay out for them some troubling statistics on the state of finances in America. Among other things, he told them that:

Total consumer debt exceeds $1.8 trillion.

The average consumer debt per household exceeds $17,000.

The average credit card debt per household is $6,500.

The average American has nine credit cards.

70 percent of Americans live paycheck to paycheck.

Ryan and Christine were shocked. If the saying "misery loves company" was true, they certainly had plenty of company. Ryan was especially surprised with the amount of debt the average family carried.

Tom looked at them and said, "The lack of personal financial management and the high levels of consumer debt have created a personal financial epidemic in America over the past several years. The number one asset for Americans has always been equity in their homes. Yet over the past ten years, as interest rates have declined and banks have aggressively pursued the home equity loan market, many consumers have transferred their debt obligations to their homes. Today, the average equity in our homes has actually declined."

"Well, we're guilty," said Ryan. "We thought it was a way to avoid paying high interest rates."

"It can seem that way," replied Tom. "This type of strategy for debt management, while sound by the numbers, is problematic, because families often do not fix the root cause of their debt woes. Home equity loans, in fact, may actually mask the extent of the overspending problems in a family and even put their home at risk."

"I don't think I ever thought of it like that," admitted Ryan.

"What the average family does next," Tom explained, "speaks to the epidemic we are faced with in America. Because they have not addressed the overspending problems, families often go out and repeat the cycle all over again. My experience leads me to believe that the average family actually spends about 10 percent more than they bring in annually, whether they make $50,000 or $500,000 per year . . . "

"Well," joked Christine, "at least we're no worse than average."

"There are millions in your same situation, Christine," Tom agreed, "and many more who are doing far worse. Let's take the example of the average family spending 10 percent more than they earn. If they have an after-tax income of $50,000, they will usually spend closer to $55,000 a year. Over the course of three years, they will likely accumulate about $15,000 in consumer debt, carried primarily in credit card balances and miscellaneous revolving debt accounts. That is the point at which many consumers seek a home equity loan or a refinance of their primary mortgage." Tom looked thoughtfully at Ryan and Christine and added, "Such a step can be deceiving and lead a family to think they are nearly debt-free, since all their credit card balances and revolving debt accounts have been wiped clean."

Christine looked at Ryan and said, "That sounds familiar. We did feel relieved at the time. But now we're right back in the same mess, only worse."

Tom nodded. "It's a common pattern. Your debts aren't really wiped clean, of course. They're just consolidated into one debt account with a lower interest rate: one monthly payment instead of three or four. As I say, it makes sense by the numbers. But it does give a false sense of security and never really addresses the root problem."

"Whew!" Ryan leaned back in his chair. "You've just described our finances to a tee. It's not a pretty picture, is it?"

Tom chuckled, but added seriously, "Ryan, as I mentioned to you in our telephone conversation, just the fact that you and Christine are here shows me that you have a desire to get on a different path. Unfortunately, most people never make it to this point. They just go right on spending and jeopardizing their financial future and the future of their family."

Christine spoke up, "We want to put the brakes on our spending, but everything always seems important at the time. We never intended to live beyond our means—I guess we just figured at some point, we'd be making enough money to get us out of debt."

"It seems that, from what you're saying, Tom, we could have the same problems no matter how much we're making," said Ryan. "We're here because we want to make some changes. We just don't know what changes to make."

"Helping you to refocus is a good place to start," responded Tom. "Recent studies have shown that people earning average incomes who eventually become wealthy have three things in common: First, they live well below their incomes. Second, they believe that financial independence is more important than high social status. And third, they allocate their time and energy efficiently in ways conducive to building wealth."

Ryan and Christine exchanged glances. "Well, we certainly don't qualify on number one," said Christine.

Ryan nodded in agreement. "It's really hard to say no to spending money."

"My personal opinion," Tom added, "is that most people are often unable to really focus on the third, because they never get beyond the first two. To say it differently, it is very difficult to find the time and energy necessary to maximize our earning potential when we are caught in the daily grind of trying to manage debt loads and worrisome financial situations. True financial independence comes when we free ourselves of debt and know that we have the resources necessary to meet all of our financial obligations, including retirement."

"That's what we want," Ryan agreed.

"I am convinced that, statistically, it is very unlikely that we can earn our way to financial independence," said Tom. "Individuals who succeed must first successfully tackle the number-one financial issue facing American families: spending management."

"I agree with you," said Ryan, "but finding an answer to that problem is not all that easy. Christine and I are both educated people. Our intentions have always been to stay out of debt and grow our savings for the future. But somehow, with all the complexities of life, we have failed miserably. And if your numbers are right, we are not alone."

Tom leaned back in his chair. "You're right, Ryan. It's not that simple, but it's not all that difficult, either, if you apply the right principles and use the right tools. Tell me, what do you do over at Medical One?"

Ryan explained his position and the responsibilities surrounding his job.

"And how do you keep your projects on budget?" Tom asked.

Ryan paused as he remembered his promotion to senior project manager. Medical One had created a very successful process for project management. He began to explain to Tom that when he took over as the senior project manager, the company had sophisticated project-tracking software and a number of other management tools in place. Still, most projects were coming in over budget. Senior management's number-one objective for him was to find a way to manage projects within the budget. Ryan had focused on two areas: first, accurate forecasting, and second, expense management.

Ryan believed that Medical One had the first mastered. And even if it didn't, merely raising the cost forecast would be a competitive disaster, because the company would have to charge more. Obviously, Medical One was not making as much as it should on projects, because the projects were coming in over budget.

He explained that his biggest frustration with expense management was that the company's accounting system was always about one month behind. It was nearly impossible, without keeping complex spreadsheets and spending a lot of time he didn't have, to determine how a particular expense item would impact the overall budget.

Ryan had taken a good look at the tools available to Medical One for planning and tracking project expenses in real time. After studying many products, he found a module that would integrate with Medical One's current accounting system, making it possible to do real-time tracking of all expenses, including labor. This meant as soon as a purchase or expense item was approved, it was logged to the project, which allowed managers to know immediately where they stood financially.

Ryan recommended to senior management that Medical One spend the $75,000 necessary to purchase and integrate this new expense planning and tracking system. He had made a solid presentation, and senior management had approved the upgrade.

After rolling out the new system, Ryan and his project managers always knew exactly how much money remained in each budget, and how each new expense would impact the overall budget. With few exceptions, the project management team had delivered projects on or under budget. Senior management was pleased. The $75,000 investment was going to pay for itself many times over.

As he concluded, Ryan broke into a smile. He suspected that he had just stumbled onto one of the key issues he and Christine faced with managing their personal spending.

Tom spoke. "Ryan and Christine, are you familiar with the Success Cycle?"

Ryan recalled the chart in the reception area. "No," he said, "but I think I saw it hanging outside your office."

"That's right," Tom said. "The Success Cycle describes the process used by many companies to successfully plan and execute a project to completion. The steps include planning, tracking, comparing, and adjusting. Ryan, I believe this is the process you have just described in your work for Medical One."

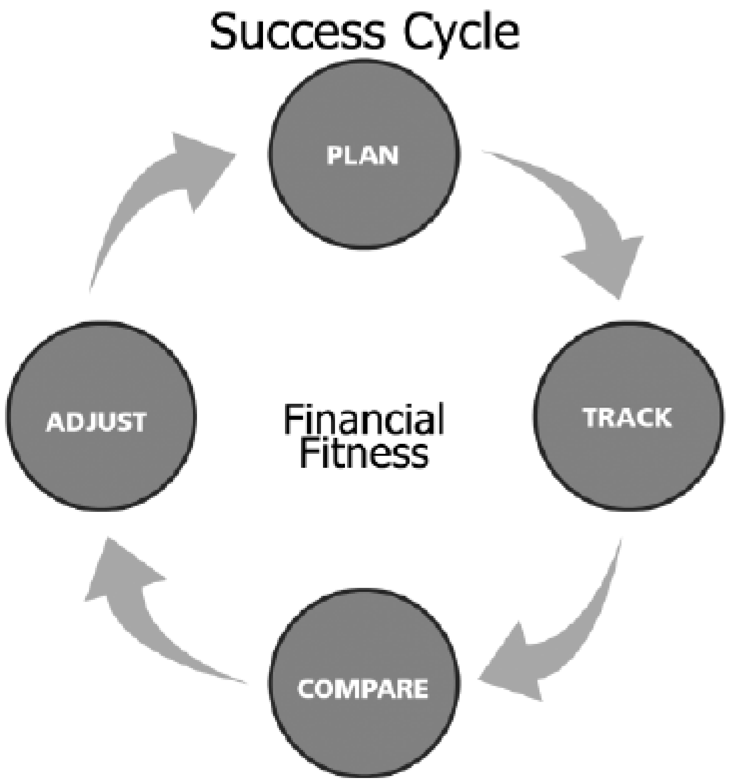
Ryan nodded.

"The component you were missing was real-time tracking, making it impossible for a manager to make appropriate comparisons to his budget or to make needed adjustments to keep the project on track."

Ryan was following him and nodded, "Yeah, that's right."

Tom pulled a document from a file folder and handed it to Ryan and Christine. On it was a copy of the chart Ryan had seen in the reception area. In the center were the words financial fitness. Around this were four steps, with arrows leading from one to the next. Starting at the top, the steps were labeled PLAN, TRACK, COMPARE, and ADJUST. (See Figure 2.2.)

FIGURE 2.2 - Success Cycle



"Personal financial management in today's world is much like that of a company," explained Tom. "Without planning, it is impossible to create a benchmark against which to measure success. Tracking is a vital component, and I don't mean haphazard record keeping like most people do, but tracking every single expenditure."

"Track every purchase!" exclaimed Ryan. "How would we even begin to do that? That was the problem at work until we found the tracking software—there was just no realistic way to track all of our expenses in real time."

"That would be a real hassle and sounds almost impossible," added Christine. "Tracking expenditures at Ryan's company is one thing, but in real life it seems so complex. So much of what I end up buying only costs a few dollars. Some things I charge, some I pay cash for, and for others I write checks. I know it'd end up driving me crazy."

"It's important, though," explained Tom. "Just like the system you implemented at Medical One, once a couple begins to successfully track each expenditure, they can compare the results to their original plan. It is impossible to plan perfectly the first time, and therefore adjustments will be necessary. As couples continue this process, they become very good at managing spending and maximizing savings and investments. They also can avoid the consumer debt trap."

"That all sounds good in theory," Christine said, "but the realities of day-to-day living make following that cycle difficult."

"You're right," Tom said.

Suddenly Ryan leaned forward and said, "We found a tool for our company; it would be nice if we could find a tool that would be able to track our personal expenses on a daily basis and summarize our spending status for us. Accurately planning and tracking in real time is nearly impossible. I've just never found anything that can track as I spend."

Tom sat back and thoughtfully said, "You two have just identified the two major problems most people face with finances: first, understanding the realities of spending in today's environment, and second, finding the tools necessary to implement the success cycle."

"Our problem exactly," agreed Ryan.

"Let me tackle the realities of spending in today's environment first. In my opinion, there are a number of root problems we face today. Each of these problems has an impact on our spending psychology. Here is a list." Tom pulled a sheet of paper from a file folder on the table. On it was a list of several root causes of poor spending choices:

1. Loss of a psychological tie to real money
2. Explosion of ways to spend money
3. Inability to compare expense to income in real time
4. Lack of training
5. Advertising-driven consumption
6. Easy access to consumer credit

"Let's take a few minutes and discuss each of these," Tom said. "First is a loss of a psychological tie to real money. In the past, people purchased items mainly with cash. When the money was gone, it was gone. Today, individuals use a lot of plastic and revolving consumer accounts. Actual tests have shown that on average, individuals will spend 10 to 12 percent more for the same items and services with plastic than they will with cash. We are losing the psychological tie that comes with making a cash transaction. It's just too easy to spend 'invisible' money today."

"I know!" exclaimed Christine. "It is so convenient to pull out a credit card. I've always been so good at managing the checkbook, but when it comes to credit cards, I've just never gotten past the idea of them being 'free money.' I tend to look at the credit limit as if it's our own money, instead of money we will potentially have to pay back. It's just too easy to forget how real that negative balance will become."

"You are only doing what many people do," Tom said. "The second issue, which is related to the first, is an explosion of ways to spend money. When I was just getting started in this business, there really were only a few ways the average person could spend money—mainly by using cash or by writing checks. Today, there are numerous methods for spending money, including credit cards, debit cards, direct payment, online bill pay, and revolving credit accounts, as well as cash and checks. On top of this, most families, in addition to carrying a number of credit cards, have multiple checking and savings accounts—often with more than one bank. As a result, tracking spending has become even more difficult than before. It's hard enough to track one person's spending in this complex environment. When you add two or more spenders to the average family, it becomes nearly impossible."

"Yes," agreed Ryan. "Even when we tried to plan our spending, we never knew for sure if the other one had already spent the money or how much was left. It's frustrating."

"It's a big problem, all right. This added complexity leads to the next problem, an inability to compare expense to income in real time."

"Ryan," Tom said, "you talked about the tracking software program purchased by Medical One. This software allowed you to see the impact of every spending decision on a specific area of the project budget and on the project overall."

"That's right," Ryan added.

"Well," Tom continued, "the complexities of our modern world have made it very difficult to compare our daily and monthly spending to the income we have coming in. For most people, it is nearly impossible to understand if they can really afford a particular purchase. Without being able to evaluate each purchase on a daily basis as it relates to our weekly and monthly income, it is very difficult to make informed decisions.

Christine sighed and said, "I know exactly what you mean."

"Now, let's look at the fourth issue leading to poor spending choices—lack of training. When was the last time the two of you had any formal training in the area of personal financial management?" Tom asked.

They both shook their heads, and Christine said, "I don't think I ever received training in that area, even in college."

"That's just it," Tom said. "As a society, we do a very poor job of providing even basic personal financial management training. Given the complexity of managing finances in today's world, it is no wonder people have such a difficult time.

"The fifth factor is advertising. It is hard to avoid spending when you are bombarded with thousands of marketing messages every day. They come at us from radios, televisions, outdoor advertising, retail outlets, and public transportation, just to name a few. Making purchases as a result of advertising is known as 'advertising-driven consumption.' The fact is," Tom continued, "American companies are very good at marketing. It is very difficult to appropriately combat these messages and place them within our own proper need-versus-want category. Advertisers do a great job of making us believe we need everything."

"I keep thinking I am resistant to advertising, but I'm probably being influenced in ways I don't realize," admitted Christine.

"We all are," Tom agreed. "And, to make it even harder, companies provide easy access to consumer credit. When was the last time you received a credit card offer in the mail?"

Christine, who normally opened the mail, responded, "Just yesterday. In fact, I'll bet we get several offers each week."

"That's right," Tom answered. "And when did you get your first credit card?"

Ryan thought for a minute, then said, "I think it was my sophomore year in college."

"And how difficult was it to get that card, and what was your credit limit?" Tom asked.

"Well, let's see," Ryan said. "It took a while to get it, and I think the credit limit was around $1,000."

Tom chuckled. "That's where we have come in just the past 15 years. Today, we have high school sophomores with credit card debt problems. Fifteen years ago, banks would have scoffed at the idea of extending credit to a high school student. Consumer credit has gotten completely out of hand, and consumers are all too eager to use the full amount of what is extended to them."

Christine nodded. "I know all about *that*. When you put it all in perspective like this, it is easy to see how spending and consumer debt have gotten so far out of control."

"Yes," said Tom. "Without a clear plan that implements the principles and the right tools necessary to execute that plan, it is almost impossible for the average American to achieve personal financial objectives."

Ryan and Christine shifted in their chairs, trying to anticipate where Tom was going with all this.

Tom continued, "I wanted to talk to you about some of these root causes, because it will make clear the plan of action I'm going to suggest."

"Well," said Ryan, as he looked over the sheets of paper in front of him, "I certainly feel like I have a better understanding of what we've been doing wrong."

"I agree," said Christine. "And I also feel a little bit better in knowing that we're not the only ones with this problem."

"I think I can speak for both of us," Ryan said, "when I say we'd like to know which path we should take."

Chapter Three

Choosing a New Path

Tom had in mind the best solution for Ryan and Christine as soon as he understood their situation. They needed a budgeting system that would give them control over how they spent and that would offer them a preview of the consequences of their purchasing decisions. Like anything that required a shift in thinking, it would take some time to develop, but would pay off, so to speak, in the end.

"Are you familiar with the traditional envelope method of cash and spending management?" he asked them.

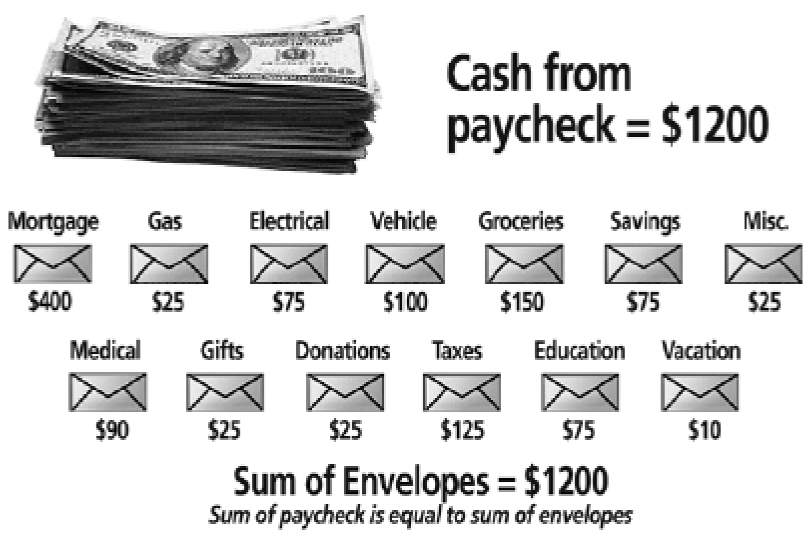
Christine smiled and said, "You mean the process of stuffing your cash into different envelopes? One for gas, one for clothing, one for vacation, one for food, right?"

"That's right," Tom said.

Christine continued, "My grandmother did that for all the years I knew her. She absolutely swore by it! But I never really understood how it worked. How could mere paper envelopes help someone save money?"

"Well," Tom said, "there is a reason your grandmother, and literally thousands like her, used this system in the past. With this system, purchases were primarily made with cash. After taking a paycheck to the bank and cashing it, an individual would take the cash and literally divide, or allocate, it to spending accounts created with labeled envelopes. There were usually two types of envelopes: those for monthly purchases, like food, clothing, utilities, and housing, and those for purchases that took place periodically, like vacations, property taxes, gifts, insurance payments, and so on. For monthly purchases, an individual would determine the amount of required monthly spending, and after receiving a paycheck, would fund, or place, the required amount of cash into these envelopes. (See Figure 3.1.) For periodic purchases, a person would determine the annual required spending and then divide this amount by 12. Then each month, this amount was placed into those envelopes.

FIGURE 3.1 - Traditional Envelope Budgeting System



"Whenever cash was needed to purchase groceries, a person would take the envelope labeled FOOD to the grocery store. With cash in hand, two very important pieces of information were available: first, how much money was left to spend, and second, how long it would be before there was cash to put into that envelope again."

"So they could never overspend the grocery budget," commented Christine.

"That’s right," Tom said. "But in today’s high-tech, cashless society, we have lost complete track of this information. That old envelope system made it possible for individuals to easily plan, track, compare, and adjust their spending—all four components of the Success Cycle."

Ryan leaned forward. "That’s fascinating," he said. "The envelope system provided individuals with the same type of information that the new accounting system at Medical One provides for our project managers. The only problem with using the envelope system today is the need to have cash on hand. That really isn’t practical in today’s world."

"So true. Who pays their mortgage with cash these days? No one. That’s just not practical anymore. The amazing advantages of the envelope system have not disappeared, however. The traditional envelope system worked fine if you used only cash. Most people today, however, are unwilling to give up the flexibility of their debit cards and checks— and when you combine cashless spending with the old system, you lose the ability to track in real time. But there are several ways to implement the envelope system in our modern era. I’ll tell you more about these in our next meeting."

He paused and waited for the reaction of his newest clients. Just as he thought they would be, they were interested but cautious.

"So where do we go from here?" Ryan asked.

"What I really want you to accomplish this week is to set up your spending plan. First, you’ll need to figure out your total net monthly income— all the money you actually have to spend. Next, you’ll want to get a good picture of all of the different places your money goes. That’s why you’ll need to set up spending accounts—essentially, your envelopes— that take into account every category of spending that you have. This can take a little time to complete. To help you think about what those are, you should create two main categories of expenses: monthly and periodic. And divide each of those categories into two more: required and discretionary. Monthly required expenses are things like your mortgage and car payment—expenses that must be paid each month; monthly discretionary expenses include things like, clothing, entertainment, and groceries—things that are always there but are variable and over which you can exert some control. Periodic required expenses would include property taxes, annual auto registration, and homeowners insurance; periodic discretionary expenses would be things such as vacations, gifts, and home maintenance."

"Once you’ve calculated your income and identified your spending categories, you’re ready for the third step—figuring out how much money you’re spending, on average, in each category. You should spend some time looking at the information you have on hand, and use that information to determine how much you’ve been spending in each category every month. Don’t worry if you’re not able to find all of the specific data, because we’ll be making adjustments as you start tracking your spending. The idea is to get a general sense of your spending. You’ll use this information to estimate how much you’re spending in each category every month, compare that to your monthly income, and then—the fourth step—decide how you will start reducing your spending. That’s how you create your spending plan, which leads to understanding how to start managing your money."

Tom suddenly looked very serious. "Ryan and Christine," he said, "my job as a certified financial planner is to help you invest your excess cash in ways that will assist you in reaching your financial objectives. To get to that point, I am also interested in working with you to create a financial plan that will make that happen. Over the years, I have prepared many sophisticated financial plans for clients. These clients have paid thousands of dollars for these plans. Unfortunately," Tom continued, "because a large number of these clients have not been able to spend within their income and save money, they have abandoned these plans. If clients are unable to generate excess cash over time, there is little or nothing I can do to help them achieve long-term objectives."

"First, we have to manage our spending," said Christine.

Again, Tom agreed. "Once you’ve done that, then you’ll learn to pay down debt and start saving. Let’s meet again next week, and then once a month for the next three months. In our next meeting, I’ll show you a tool that you can use to implement the envelope system. But we’re getting ahead of ourselves here. For now, set up your spending plan. This requires some effort, but I know it will make a difference in your finances and in how you are looking to plan the future. Is this something that you believe is worth the time?"

Christine grabbed her husband’s hand. "I know it is."

* * *

A sea of fourth graders bolted up out of their desks en masse as the end-of-day bell rang out through the hallways of Christine’s school.

"Now, kids, don’t forget your reading assignment for tomorrow," Christine said loudly, above the din of nine-year-old chatter and horseplay. "We’ll be going through the first half of chapter six in your red books in the morning."

For once, Christine was as excited as her students were that the school day was over. She and Ryan had set aside this evening to go through their finances with a fine-tooth comb. And since she would be getting home earlier, Christine agreed to set up a basic spreadsheet to help them create their spending plan. She stuffed a few papers into her bag and headed out the door.

The key for Ryan and Christine tonight was to budget their income by creating envelope spending accounts. Tom had prepared them for this step with some counsel. "When you create your envelope spending accounts," he had told them, "you will be creating your monthly spending plan. Your total spending must fit within your defined monthly net income." He suggested that the two of them spend some time in advance trying to define all of their areas of spending and the amount they had typically spent per month in each area. They had started doing this a few nights before but were going to nail down those details this evening.

As Christine drove home in the car, she started cataloguing some of the expenditures in her head. She and Ryan were both excited to be taking this step, but she was afraid that they'd find it impossible to spend less on a regular basis. *What if there is no room in our budget to squeeze?* Christine thought. *On the other hand*, she thought, *at least if we go through with this, we'll know exactly what the situation is. And that's got to be a plus, no matter what.*

Christine opened the front door of their house and let out a deep breath. Silence. For once, the house was quiet. She'd gotten her friend Susan to take the kids this afternoon. Susan and Rob Goldman had been friends of Ryan and Christine's since college. Rob had been Ryan's roommate during his freshman year, and they'd been close ever since. Susan and Rob had two kids—Megan, their 14-year-old who had just entered high school, and Danny, who was 8. Chad and Jennie were probably having a blast with Megan and Danny by now. Megan was great with Chad and Jennie, and such a good student. Christine frequently told Megan what a great teacher she would make, and secretly hoped that she might someday follow in her footsteps.

Their office at home had become another play area for the kids— toys were strewn about the floor and on the desk. Chad loved to play games on the computer, and even Jennie was using it now. Christine thought back to the first time she started using a computer. It was at the University of Florida—they had a small computer lab next to her dorm where she typed up her papers for class. When she learned how to type in junior high, it was on a typewriter. *My kids don't even know what that is,* she thought, *and Chad is already a better touch typist than I ever was.*

She cleaned up the office as best she could, turned on the computer, and began to set up a spreadsheet to categorize their expenses on one side and their income on the other. She and Ryan had begun putting together a list on paper of all the categories of expenses they had— mortgage, car loan, credit cards, student loan, home equity loan, taxes, insurance, utilities, groceries, clothes, dining out, entertainment (movies, shows, playing golf), personal care, vacations, gasoline, car maintenance, home maintenance, day care, babysitters, music lessons for Chad, swimming lessons for Jennie, allowances, Christmas gifts, and pocket money. The sheer variety of spending categories was intimidating. *No wonder it was all so hard to keep track of,* she thought.

Categories of income, on the other hand, were relatively simple to track—Christine's job at the elementary school and Ryan's job at Medical One, plus bonuses.

She entered the spending and income categories into the spreadsheet and left spaces to fill in the numbers. At the bottom of the screen was a space labeled TOTAL. That would be the one to tell them just how much they were overspending each month.

Next, Christine gathered together all of their credit card, loan, and bank statements, along with any other utility statements and bills from the past year. They would need to go over these to confirm the numbers they had come up with earlier in the week for how much they were spending every month in each category. By now, it was time to pick up the kids from Susan and Rob's house. Ryan would be getting home just about the time she got back.

* * *

Ryan sat at his desk reviewing Medical One's latest project reports. It was still early in the month, but so far things seemed to be on track. As he pondered a few of the details on one of his larger projects, the phone rang. It was Christine.

"Hi honey, it's me," she said. "I'm on my way to pick up Chad and Jennie. I was just calling to let you know that I set up the spreadsheet for us on the computer."

"That's great, Christine. Sounds like you've been busy. I appreciate your doing that."

"I actually kind of enjoyed it," she said. "It's a little tiring, gathering everything together like that and trying to cover every category of spending. But it's exhilarating when you think about what we'll know about our situation when we're done."

"That's true," Ryan said. "And we'll be able to use it to help us stay on track from here on out."

"I'm looking forward to working together on it," said Christine. "I'll see you at home."

"I should be home in a half hour, depending on traffic. See you then."

Ryan hung up the phone and found himself smiling as he packed up his briefcase. For the first time in many months, there was reason for hope. And frankly, their taking productive steps together to solve the problem was creating some good feelings between them—something he welcomed.

As Ryan rounded the corner and pulled into the driveway, he saw Christine and the children sitting on the porch waiting for him. Chad and Jennie ran to Ryan's door almost as soon as he parked the car. They both spoke excitedly about their day at school.

"Hey, slow down you two," Ryan said, laughing. "Let's take it one at a time. You go first, Jennie."

His daughter broke into excited chatter about her day in kindergarten. Soon, Chad chimed in. As a third grader, he loved math and science.

"Hey, Dad," Chad asked confidently, "what's 10 times 100?"

Ryan pretended to think for a minute. "Well Chad, I'm struggling with that one. What is it?"

Chad quickly replied, "It's 1,000, Dad. Why didn't you know that?"

Ryan laughed. "It's been a long time since I studied math, Chad, and I'm a little rusty. So you're going to have to keep helping me."

After dinner, Ryan helped Chad with his homework while Jennie colored and Christine cleaned up the kitchen. Then they started the bedtime routine, which included reading stories and tucking the children into bed.

Finally, Ryan and Christine were sitting together at the computer. Ryan looked over the long list of spending categories on the spreadsheet and practically gasped.

"Wow," he said. "No wonder we can never keep track of all of this stuff by ourselves. Look at all of the ways we have to spend our money."

"That's funny. That's exactly what I thought when I looked at this list," said Christine. "OK, now let's figure out our total monthly income."

"Yes," Ryan said, "it'll be nice to start with something positive."

Ryan opened up the file of pay stubs he had gotten out the night before and started doing some math on the calculator. "Starting from my gross salary at Medical One of $64,000," he said, "my annual take home pay after taxes, Social Security, health insurance, and my 401(k) comes down to $46,092.28. If I divide by 12, I get a monthly income of $3,841.02."

Over the past several years, Ryan's bonus had grown proportionately with his salary, except for the rare quarter when objectives had not been met. Because they could not be certain of the amount they would receive, he looked at the bonuses paid out over the past two years and entered the average. "If I average out my bonuses from the last eight quarters," he said, "I get an average quarterly bonus of $895.85, which, divided by three, equals an additional monthly income of $298.62. Add that to my monthly salary, and the total is $4,139.64."

"Whew!" said Christine. "I thought you told Chad your math skills were rusty."

"OK, let's do yours now," said Ryan. Christine figured her monthly after-tax income to be $2,096.67. "So our total combined net monthly income is $6,236.31." Christine looked at the number and said, "My gosh, we should be able to live on that! Why are we always scraping to get by?"

"I'm not really sure, but I think that's what we are about to find out."

Next, Ryan and Christine started work on the spending categories—the envelope spending accounts they were about to create. They each had estimated monthly budgets for each category. With the credit card and other bills and statements spread out on the desk in front of them, they began to look at the hard evidence. Most of what they estimated was accurate. But there were a number of surprises.

"This is good news," said Christine. "Our monthly utilities come out to be less than what I remembered they were."

"Yeah," said Ryan, "but the bad news is we're spending more on gasoline than I thought. And if these MasterCard bills are right, we're definitely spending more on clothes than you thought."

In some categories, it was tough to face the truth of how much they were spending each month. But they started assigning real numbers to the numerous spending categories Christine had entered into the spreadsheet earlier. As Tom had suggested, they then divided the categories, or envelopes, into four kinds of expenses: monthly required and discretionary, and periodic required and discretionary. Ryan was studying the dwindling amount of money left for discretionary spending. "Cursor down the screen," he said to Christine. "It looks like you still have a lot of categories of spending here."

"These show where the rest of our money goes," she said. "Clothing, allowances, eating out, entertainment, activities for Chad and Jennie, vacations, Christmas gifts, and pocket money."

Ryan looked at Christine. "Wouldn't it be nice to have all the money we needed for Christmas set aside in advance next year?"

Christine grimaced and nodded. The memory of the credit card experience at the checkout line was still fresh in her mind.

Christine began entering the remaining numbers and soon noticed they were getting to a negative number. "We're overspending, Ryan. Look."

"Keep going. Let's see by how much."

Christine entered the last of the amounts on the spreadsheet. They looked at the final total. There it was. They were spending nearly $600 a month more than they were bringing in.

Christine looked at Ryan and sighed, "Well, where do we go from here? We've included everything, and we're falling behind by over $7,000 a year."

Ryan looked at Christine and said, "Well, when we got to this point at work, we had two choices: increase prices or track spending so we could manage within our budget." Christine nodded, and Ryan continued, "I don't think our situation is all that different. We can hope for an increase in income, or we can work to manage within the resources we have."

Christine knew Ryan was right. "Based on the numbers we came up with here," she said, "we'll have to trim $587.46 from our monthly budget."

They spent the next 20 minutes looking at each spending envelope and made decisions about what they had to cut back on. After a while, nothing was sacred. Christine watched in amazement as Ryan reduced his golf and recreational spending account. Ryan was taken aback when Christine cut down her clothing and personal care allowance.

"We might be cutting a little too deep in some areas," Christine warned. "One of the things that worries me is our ability to stay within the envelope budgets when it comes to putting this into practice."

"That's OK. We'll talk to Tom about it next week. The important thing is that we have it prepared."

Finally, the plan was balanced. While Ryan printed out the spreadsheet from the computer, he looked over their budget on screen. "Well," he said, "we're not saving much, but at least now we can start to pay down some of our debts."

"You're right," Christine acknowledged. "If we stick to this plan, we will have stopped the overspending. And who knows, maybe we can find other places to save as we go along."

Ryan nodded his agreement. "You know, this has been revealing. I'm anxious to see if we can make it work. Remember what Tom said? Something about the absolute feeling of empowerment that comes from having the money set aside for the things we need, when we need them."

"I like knowing exactly what I can spend. I don't have to feel guilty every time I go shopping—you know, wondering if I buy something today if we'll still have enough to pay the bills tomorrow."

Ryan sat back and reached for Christine's hand. They had just completed the first step in the process—developing a balanced spending plan that would allow them to live within their means. The plan would initially allow them to begin eliminating consumer debt, something both of them wanted to accomplish as soon as they could. And eventually, they would have money to save or invest.

"Thanks for doing this with me," Ryan said as he leaned forward to shut down the computer. "I'm really excited to give this a try."

"I'll do everything I can, as well. Now we'll always know exactly where we stand."

"I think we've taken a real step forward with this . . . "

"Shush." Christine put her arms around Ryan and gave him a kiss.

* * *

"How's my favorite couple?" asked Tom, as he gave Ryan and Christine a wink and ushered them into his office.

It had been three days since Ryan and Christine had spent the evening working out their new budget. After completing the work of identifying their envelope spending accounts, discovering by how much they were overspending, and figuring out a workable, balanced spending plan, they were eager to move on to the next step. Tom had promised to show them a way that would help them implement—and stick to—their new budget. They sat down across from Tom at the table.

"Well," said Tom, "did you find my assignment useful?"

Ryan and Christine shared a smile. "We found the homework to be well worth it," said Ryan.

"Yes," Christine agreed, "we feel like we have a much better understanding of the problem and what we can do about it."

"Right," said Ryan. "Now we're just anxious to find out how we can use what we've learned to keep ourselves on track."

"Good," said Tom, as he leaned forward and uncapped his pen. "Last week, I described the traditional envelope budgeting system to you. The system is very simple, and it's what you used as the basis for creating your spending plan. Each category in your spreadsheet is, in essence, a virtual envelope. There's nothing more to the old-style envelope system than what I shared with you last week—you literally have an envelope filled with a set amount of cash for each spending category. When the envelope runs out, that's it. You either wait until next month, or take money out of one of the other envelopes, thus reducing the amount you can spend in that category."

"It's a foolproof system," continued Tom, "as long as you only use cash. When I started out more than 30 years ago, that was a reasonable assumption. Except for paying bills, most people still used cash for almost all of their purchases. However, as we discussed, the proliferation of debit cards and other forms of payment have made cash-based envelopes workable in theory but unrealistic in practice for most people. It just isn't practical to use cash the way we used to. Fortunately, there are other solutions available for those who don't wish to live a cash-only lifestyle."

Ryan and Christine leaned forward in their chairs as Tom continued.

"The good news," said Tom, "is that there is now a way to keep track of all of your purchases with your computer. Much like the tracking software you identified at

Medical One, Ryan, there are tools I can show you that will do much the same thing, except they will be tailored for your personal spending. By accessing your financial institutions, you can track, in real time, all of the purchases you make. And with the right software, you can assign transactions to the appropriate ‘envelopes.’ So, you can still use your envelope budgeting system without having to go back in time to the 1950s when everyone used cash.

"Of course," Tom continued, "you can still use actual cash envelopes for certain things, if you want. The idea is to make sure that you’re keeping track of your spending as you go along, day by day. You also can use a paper ledger, or spreadsheet, system, if you choose. Since I know you’re both pretty capable on the computer, a computer-based system might be right for you."

Ryan looked at Christine. "I think we’d both jump at the chance to be able to use a tool that could assist us in tracking our spending in relation to our various spending categories in real time. It sounds like the ideal solution."

"Terrific," replied Tom. "I’ll work with you to set up your envelope budgeting system. Once you feel comfortable with it, I would like to challenge you to use it for the next 12 weeks. If you use the system as planned, I am confident it will change your life. Following your successful use of the system for 12 weeks, we will begin developing a long-term financial plan. Are you up to the challenge?"

"Absolutely," said Ryan.

"I would like to meet with you once a month to review your progress. At our next meeting, we’ll talk about some debt-reduction methods that can be used with your envelope system."

"That’s great," said Christine. "How do we get started?"

Chapter Four

Discovering Financial Fitness

Christine and her friend Susan rode up front, with Chad, Jennie, and Susan's youngest, Danny, in the back seat, as they drove to the zoo on Saturday morning. After several minutes of talking about the kids and school, Susan asked, "So how's the 12-week challenge?"

Christine had told Susan how she and Ryan were trying out a new budgeting system. Christine laughed. "You know, it's the strangest thing. This one little thing is making a huge difference for Ryan and me. It's hard to explain, but for the first time in our marriage, I feel like we are on exactly the same page financially. It's made it much easier to talk about money, and much more natural to be conscious of how we're spending. It may be a bit early to tell, but I'm very optimistic."

"Good," said Susan. "I'll be interested to know if you still feel that way in 12 weeks."

They soon arrived at the zoo and headed toward the entrance. Once inside, they asked the kids where they wanted to go first. Jennie wanted to see the ducks, whereas all Chad and Danny cared about were the gorillas and the lions. After spending a couple of hours winding around the paths that took them from aquatic birds to primates to jungle cats, they walked over to the concession stand.

"Mommy, look!" said Jennie excitedly. "A duck hat! Can I have one?"

"I know it's cute, sweetie, but . . . "

"Please, Mommy."

"Well, let's see if we can buy that today," responded Christine. She pulled out her handheld personal organizer and looked at her envelope spending accounts. "It says here that we have some money in our 'Jennie' envelope, but that was to buy you a new pair of shoes this afternoon."

Christine looked at her daughter. "So, do you want the duck hat today and the shoes next month? Or do you want to skip the hat and go ahead and shop for shoes like we planned?"

Jennie thought it over, and finally said, "I guess I want my new shoes."

"OK. How about we buy some seeds and feed the ducks?"

"Yes!" Jennie clapped her hands and ran toward the pond, dragging Christine with her.

After touring the zoo, Christine and Susan treated the kids to lunch at a family restaurant that was one of their favorites. While the boys and Jennie took off to check out the gift shop, Susan and Christine had a chance to talk over dessert.

"So, how did you do that at the zoo?" asked Susan.

"How did I do what?" asked Christine.

"You know," Susan said. "Jennie was whining for some duck hat, and you whipped out your organizer and said, 'Well, what'll it be, Jennie, the hat or the shoes?' I mean, how does your organizer know how much money you've got to spend on duck hats? And how did you get Jennie to take it so calmly?"

"Well, Susan," Christine said, "with our new system, we divide our income into a number of spending accounts. Then, every day when we track our transactions, we know how much money is left in all of our accounts." Susan nodded, impressed. "And as far as Jennie . . . well, it doesn't always work that way. But I've found now that I can tell the kids exactly why I can't afford something, and what I *can* afford, and they're much more likely to accept it and move on than when I used to just say 'no'."

"I wish I could get Danny to be a little more accepting," said Susan. "I have a lot of trouble saying 'no' to him when he really wants some thing. It probably doesn't help that I've never really liked saying 'no' to buying things myself."

Christine chuckled, as she knew all about Susan's penchant for indulging herself with shopping sprees and other goodies.

"So Ryan is doing this, too?" Susan asked.

"Yep. He gets the same numbers off the computer as I do," said Christine. "But Ryan prefers to see things in black and white. He prints out a summary report and places it in his day planner. Either way, we both have the same information with us when we need it."

"Hmm."

"So enough about high finance," Christine said. "How's Rob doing? Is he still working crazy hours?"

"You know how he is. Once he got his promotion, he started working even harder to show his boss that he deserved it. Of course, he hasn't been too happy with me lately."

"Oh, why not?

"He's worried about all the credit cards we've got now, and all the balances we're carrying. But with the money he's making, I don't see how that will be a problem for long."

"Have you ever gone over the budget with him to find out how you're really doing?"

Susan shrugged. "Not really. Rob has always managed the finances. I know he's worried about how much we've saved for Megan's college education—and Danny's education and our retirement—but after all, we're still young . . . "

"Megan enters college in four years, Susan. Are you guys going to be all right?"

"I know we should have more saved by now," she said, "but I really think Rob's new raise will make a big difference."

"I'm sure it will help, Susan," said Christine, a little more seriously now. "But one of the things we learned the hard way is that if you're not tracking your expenditures, you really can't know whether you're spending more than you're earning."

"I'm sure I'm not spending more than we make," Susan said, a little uncertainly. "And Rob hardly spends anything at all—he's so stingy."

"Well, when Ryan and I did the numbers, we found out that we had been consistently spending about 10 percent more than we were making over the past three years."

"But surely not since you returned to work?"

Christine nodded. "Yeah, I was a little shocked to learn that as well."

"I don't know, Christine," she said. "I already have Rob looking over my shoulder and second-guessing every purchase I make. I just don't like the idea of watching every nickel. I can't live like that."

"Would you rather have Rob mad at you all the time?" Christine asked. "Ryan and I were snipping at each other over this stuff all the time, and it really was wearing on us both until we figured it out."

Susan nodded, "I know you're right, Christine."

"I mean, if not for your own future, think about Megan and Danny's. Megan's taking all of those AP classes now; she's probably going to get into a really good college. But will you and Rob be able to afford it?"

Susan sighed and put down her fork. She knew Christine was right, but she hated the idea of having to pinch pennies. Just then, Danny ran up to her, with Chad and Jennie trailing behind. "Mommy! Mommy!" he yelled. "I saw an F-14 fighter kit in the store, can I get it? It's only $15."

Susan just looked at Christine sheepishly, then turned to Danny and said, "I don't know, honey."

* * *

Two weeks later, Ryan and Christine entered Tom's office for their one-month visit.

Shirley waved them to some chairs. "Tom will be with you guys shortly. So, tell me, how's the system working for you?"

"Really well so far, Shirley," said Christine. "You were right. Using the envelope budgeting system feels very natural to me now. I can't imagine going back to doing things the way we did before."

"That's for sure," said Ryan. "I've been amazed at how painless it is. I thought it would be much harder to use than it is."

"I'm so glad it's working out for you guys," said Shirley. "This next step is going to be fun. Tom's going to show you how you can start to put money away using the system."

The door opened, and Tom walked out, bidding farewell to a client. Then he invited Ryan and Christine into his office. "You're still coming over on Saturday, right Shirley?" asked Christine.

"I wouldn't miss it," she said. "I'll talk to you later, OK?"

Ryan and Christine walked into Tom's office. "Have a seat," Tom said, pulling out a chair for Christine. "So, how are you doing using the envelope budgeting system?"

Ryan gave Tom a rundown on their last four weeks. He presented Tom with a copy of their balanced spending plan, including their net monthly income, envelope spending accounts, and the amount they were allocating to each.

Tom sat back in his chair, carefully reviewing the report. After a few minutes, he smiled and asked, "How does it feel to know you were able to live within your net monthly income for a month?"

"It has been an exhilarating experience," Christine responded quickly.

Ryan added, "I honestly didn't think we could do it after we defined the balanced spending plan, but the numbers tell the story. It feels great to be much more in control financially."

Tom placed the summary report on the table and started highlighting a few of the envelope spending accounts the two of them had created. While marking the report, he asked them a few additional questions about their envelope experience. He wanted to know how well they were communicating and how much the real-time tracking information was helping them with daily decision making.

Ryan and Christine took turns providing answers to his questions. It was easy for them to respond, because the two of them had spent a lot of time discussing these very things over the past four weeks.

When Tom finished marking their report, he leaned back in his chair and said, "You two are to be commended. You have done better with an envelope budgeting system in the first four weeks than some I've worked with. You are definitely on the right track."

"That's good to hear," said Ryan.

"One thing I would like to do today is to share some information about debt. Then I would like to talk with you about developing a strategy to rapidly eliminate your consumer debt. Did you know that there are more than three billion credit card offers mailed out each year?"

"I think we get a billion at our house alone," laughed Christine.

"Partly as a result, studies show that the collective debt of Americans now totals nearly 110 percent of total annual net income. That's up from about 85 percent in the early 1990s. Even though people know they owe money, they still go out to eat—and charge their dinner to the future. Over the holidays, fully two-thirds of Americans planned to make one or more purchases with plastic."

"Sure, but most of them are planning to pay off their credit cards, aren't they?" asked Ryan.

"They have good intentions, but often they don't ever manage to do it. Our collective consumer debt continues to rise every year in this country. In fact, according to the Economic Policy Institute, a think tank based in Washington, D.C., the biggest story of the 1990s wasn't a bullish stock market but the rising debt burden for the typical household. Look at this." Tom pulled out a sheet of paper. "People begin to get in too deep by first maxing out their home equity line, then borrowing against their retirement savings, and finally seeking a consolidation loan." He set the paper down. "People want a quick fix, and there isn't one. However, I have found that if I require prospective clients to first change their spending habits, I can help them start successfully down the path to financial fitness. I recommend an envelope budgeting system, because it allows people to manage their spending and make better choices without ongoing help from me. And I can see you're already finding the benefits."

"Yes, we are. We've been able to spend more time talking productively about our money in these past few weeks than ever before," said Ryan.

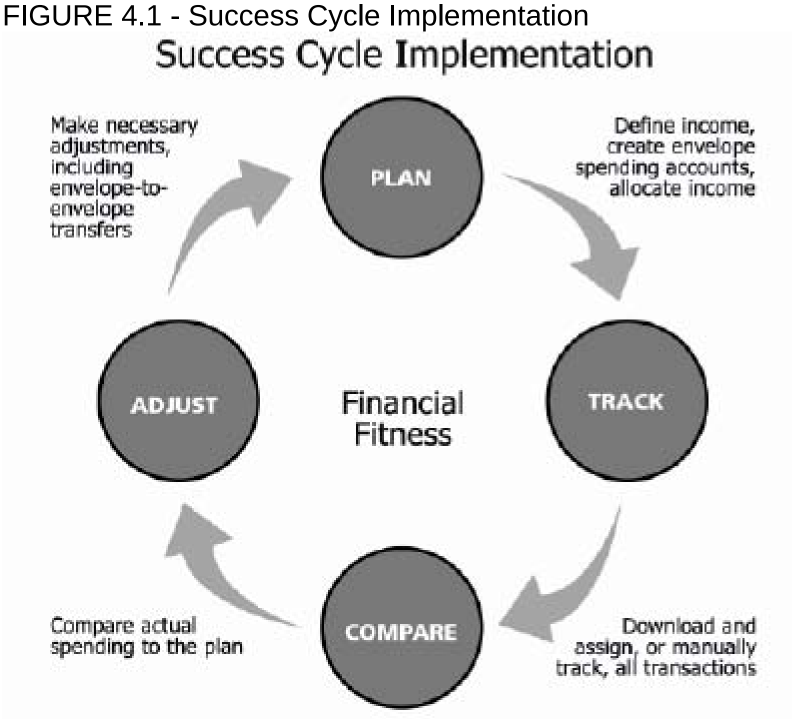
"Now I'd like to show you how to use the system to accelerate your debt elimination. Let's take a look at your spending plan." For the next several minutes, the three of them discussed several of the envelope spending accounts. After discussing a few changes in funding amounts for some of the accounts, Tom said, "I suggest you transfer the money left in your monthly discretionary envelope accounts, like groceries, eating out, and recreation, to your debt-reduction or savings envelope accounts before the next month's funding takes place."

"Why? Don't we need to build them up a bit first?" asked Ryan.

"Only if you feel you need to spend more next month in those areas than you did this month. Otherwise, you've already found out that you can stay within the monthly limits you set for these accounts. Now, take the difference and apply it toward debt reduction and savings."

Tom reached for the Success Cycle chart on his desk. "I want to review this with you again quickly." He placed the chart on the table and pointed to the steps PLAN, TRACK, COMPARE, and ADJUST. Ryan and Christine looked at the chart as Tom continued. "After you make the adjustments we have been discussing, you will have completed one cycle in the first month. You first created your plan," Tom said, as he pointed to the copy of their original spreadsheet. "Next, you began tracking your progress. You did this every time you recorded your new transactions and assigned them to the proper envelope spending accounts, which updated the balance in each account. Finally, with the help of the latest report you made, we have just completed the comparison step. You can make the necessary adjustments when you return home today." (See Figure 4.1.)

FIGURE 4.1 - Success Cycle Implementation



Tom sat back and smiled. "Every month when you complete this cycle, you will get better at eliminating unnecessary spending. As you continue to repeat this cycle, you will eventually become financially independent."

"We've got a long way to go," observed Ryan.

"Perhaps. But I'd like to show you how you can accelerate that process once you have stopped overspending. As long as you are not accumulating additional debt, you can begin reducing your existing debt very quickly using a technique called the 'debt roll-down principle.'" Tom pulled out a sheet of paper and said, "Let's first list all of your debt obligations, along with their current balance, minimum monthly payment, and annual interest rate."

Ryan and Christine helped Tom list each of their debt obligations on a sheet of paper.

"The next step," Tom said, "is to prioritize the payment of each of these debts. Generally, the easiest way to do this is by looking at the annual interest rate. First on the list would be the debt with the highest interest rate. In this case, it's your department store account, followed by your Visa account. The last debt on the list is the one with the lowest interest rate—your mortgage." (See Figure 4.2.)

FIGURE 4.2 - Richardsons' Debt Obligations

Richardsons' Debt Obligations

Description	Balance	Payment	Annual Rate
Department Store	$435	$75	21.00%
Visa	$4,350	$95	18.50%
American Express	$4,855	$75	14.50%
Auto Loan	$14,750	$517	8.90%
Home Equity Line	$9,875	$142	8.50%
Student Loan	$3,950	$142	7.50%
Mortgage	$206,320	$1,422	7.00%

Tom continued, "The idea behind the debt roll-down principle is to set aside a certain amount for debt repayment, then continue to maintain the total monthly amount you pay in debt reduction even after the first debt is paid off. Simply apply the amount you were paying on the first debt to the next debt on the list. When that debt too is paid off, you apply the amount you had been paying on one and two to the third, and so on. The key here is to make sure you continue paying the same aggregate amount every month until every debt is paid.

"Now," Tom continued, looking directly at them, "let's apply this technique to the envelope spending system. You have already set up an envelope spending account for each of your debt obligations. The amount of funding you are applying each month is equal to the payment you make for each debt. As soon as you pay off the first debt, transfer the funding for that envelope to the next highest priority debt envelope. When that one too is paid off, transfer the combined funding to the next highest priority debt envelope, and so on until you have eliminated all of your debt—including your mortgage."

Tom reached for his laptop computer. "Just for fun, I'm going to quickly enter your current debt into a debt calculator. This calculator will determine how soon you will be completely out of debt using this principle."

Tom found the calculator and entered the required information. He then printed the report for Ryan and Christine. As the two of them looked at the tables, they couldn't believe it. If they followed this principle, they could be completely debt free, including their mortgage, in about 14 years. (See Figure 4.3.)

FIGURE 4.3 - Richardsons' Debt Calculation Report

Richardsons' Debt Calculation Report

Current Debt Pay-off:

total pay-off time:	26 years 10 months
total interest paid:	$265,589

Using Envelopes Budgeting and the Debt Roll-down Principle:

total pay-off time:	13 years 8 months
total interest paid:	$142,163

Total Interest Savings: $123, 426

Total Reduction in Time: 13 years 2 months

"What's more," Tom said, "you'll literally save tens of thousands of dollars in interest. Imagine living without the burden of debt. Imagine how much money you could save and invest if you were not paying interest!"

Tom smiled at the two of them and said, "Earlier, we talked about being able to save approximately 10 percent of your monthly income by actively using the envelope spending principles. If you really want to move through your debt quickly, at the end of each month transfer the amount remaining in each discretionary envelope to the highest priority debt payment envelope. This added amount is called an accelerator. Let me show you the impact of using an accelerator."

Tom looked again at the amount of Ryan and Christine's net monthly income. "Your net monthly income is $6,236. If you were able to save an additional 10 percent, that would be $624. Let's plug that number into the debt calculator and look at the impact it has." Tom entered the number and printed the new report. As he looked at the report, he said, "This is when it gets really exciting." Tom handed the report to Ryan and Christine and watched their reaction.

"You mean to tell us that if we also use an accelerator with envelopes and the roll-down principle, we can be completely out of debt in 8 years and 11 months?" Ryan asked cautiously. (See Figure 4.4.)

FIGURE 4.4 - Richardsons' Debt Calculation Report with Accelerator Payments

Richardsons' Debt Calculation Report
With Accelerator Payments

Current Debt Pay-off:

total pay-off time:	26 years 10 months
total interest paid:	$265,589

Using Envelopes Budgeting and the Debt Roll-down Principle, with an Accelerator:

monthly accelerator:	$624
total pay-off time:	8 years 11 months
total interest paid:	$86,195

Total Interest Savings: $179, 394

Total Reduction in Time: 17 years 11 months

"That's right," Tom answered confidently. "If you continue using envelopes with the debt roll-down principle as I have outlined, while looking for every opportunity to save, you will be debt free in just under nine years, as the report suggests."

Ryan looked at Christine and said, "That's unbelievable! I would not have thought in a million years that we would be able to accomplish that feat in so short a time."

"After using an envelope system for just four weeks," said Christine, "I can see how it might be possible now." She looked at Ryan, "Honey, do you realize that with this timetable, we'd be out of debt by the time Chad is a senior in high school?"

"Wow," he said, "that would be something, wouldn't it?"

"OK," said Tom. "I can see you're both excited. Now it's up to you. Let's talk again in another month."

* * *

Ryan and Christine said good-bye to Tom and Shirley and picked up Chad and Jennie on their way to see Ryan's parents for dinner. It was a warm Friday evening, and both Ryan and Christine were looking forward to the chance to unwind after a long workweek.

Christine asked Chad and Jennie about their day at school and about what their friends were doing. "Grandpa is going to be cooking hamburgers out on the grill tonight," she told them. "How's that sound to you?" Chad and Jennie cheered.

"Will Grandma make potato salad?" Jennie asked.

"I'm sure she will, sweetie."

Ryan's mother, Patty, waved to the children from her porch, as they ran out of the car after it had parked in the driveway. Chad and Jennie raced up the steps to give their grandmother hugs and kisses, followed by Ryan and Christine who greeted her with Christine's homemade peach pie.

"How are you, Mom?" asked Ryan.

"Looking forward to retirement," she quipped.

"Not much longer now, right?" Ryan said.

"Well, I guess that depends on how our funds do," she said. "The way they've been going, we might never stop working." Patty smiled to show Ryan she was just kidding.

"How's Dad doing?" he asked.

"He's doing fine," she said. "He's out back just now, about to get the fire started."

Patty led Ryan, Christine, and the kids into the backyard, where they all greeted Grandpa. While the kids were running around, Patty and Christine got their iced tea and took drinks to John and Ryan. As John prepared to light the charcoal, Patty asked, "Who wants to come in the kitchen with me and help make the potato salad?"

"I do! I do!" Chad and Jennie shouted in unison. Christine joined them, so that Ryan and his father would have a chance to chat.

"So, are you looking forward to retirement, Dad?" Ryan asked. "Less than a year to go."

"Yeah, if I'm able to retire," John said.

"'*If?*" said Ryan. "Mom was saying something about never being able to retire a little bit ago. Are your mutual funds really in such bad shape?"

"Well, we got hit pretty hard the past couple of years," he said. "We're still carrying a lot of debt, and we were counting on those investments to provide a cushion for us."

"You and Mom still have a lot of debt?" Ryan was shocked.

His father shrugged.

"But the house is paid off, isn't it?"

"Not yet," his father said. "Twelve years ago, we had to take a second mortgage out on it when we got behind on our debts. That's when we started to put some more money away for our retirement, but we still have a lot of bills to pay."

Ryan couldn't see how this was possible. He knew that his parents had always enjoyed spending their money—taking trips, buying new cars and a motorboat, fine furniture, and nice clothes—but they were a year away from retiring! If his parents were still having the same problems he and Christine had had, how were they ever going to manage living on a fixed income? Although Ryan knew his father would not want his help when it came to advice on how to manage his money, he wanted to do something. He and Christine had just turned a corner, and if he could help his folks with what he'd learned, he felt like he owed them at least that much.

"Dad," Ryan said, "have you ever looked at your budget? How you're spending your money? Because Christine and I just started a new envelope budgeting system that is really working well for us."

John sipped his drink while he fiddled with the coals in the grill. "We've got a process we use," he said. "It works fine. We just have to work harder at sticking to it, that's all. I've got it under control, Ryan."

His father made it clear he wasn't interested in talking about it any further. But Ryan knew that their situation was anything but "under control."

After dinner, Ryan helped his mother with the dishes and had a chance to talk with her alone. "You know, Mom, I was talking to Dad earlier about your retirement plans," he began. "Aren't you worried a little bit about carrying so much debt going into this time of your life?"

"Well, of course I am, dear," she said.

"I offered some help, but Dad didn't seem too keen on my advice."

"Well, you know how your father is," she said.

"I know, but don't you have a say in any of this?" asked Ryan. "I mean, it's your retirement, too. Do you really want to have to keep working?"

"Not really, no."

"I think we could help if you let us," Ryan continued. "Christine and I have been working with a financial advisor who's been helping us get a handle on our spending habits. We track all of our expenses, including our credit card purchases and automatic withdrawals, using the principles of a traditional envelope budgeting system. I've been amazed at how easy it's been to use—and it's already starting to make a difference for us."

"Envelopes, huh?" his mother said. "My old Aunt Lucille used to use some kind of envelope system. She had envelopes stuffed with cash for just about everything."

"Right, it's the same idea. The system we use doesn't require us to carry cash, but the principles work just the same. It could really help you and Dad with your spending, and that would enable you to eventually take care of your debt," said Ryan.

"Well, it sounds interesting, dear," said his mother. "But your father's always managed the finances for us, and I'm not sure I want to get involved in all that."

"Mom," Ryan said, "you're involved whether you want to be or not."

"Hmm," she said, nodding, and handed him a dish to dry.

* * *

The next weekend, Ryan and Christine were lounging on their back deck, while Chad and Jennie kicked an old soccer ball around the yard.

Ryan took a sip of the lemonade Christine had made that afternoon and looked out at Chad and Jennie playing in the yard. "You know," he said to Christine, "I can't remember when I felt this relaxed. Probably not since we were in college."

"That *was* a while ago," Christine teased. "I think our money management has a lot to do with it. We don't have the same daily worries hanging over our heads—and we know where we stand with our finances."

"You're right," said Ryan. "I feel like we're finally keeping our heads above water—without having to struggle to do it. You know," Ryan turned his head to Christine, "I hate to spoil the moment with more money talk, but maybe tonight we could go over our debt roll-down plan."

"I was actually thinking the same thing," said Christine. "Now that we're confident we can continue to use our envelope budgeting system, I'm anxious to start reducing our debt even faster and start saving. We could do it after we put the kids to bed."

Later that evening, after Chad and Jennie were in bed, Ryan and Christine sat down in front of the office computer to go over their plan to eliminate debt in a little under nine years. "According to our spreadsheet, last month we managed to spend 2 percent less than what we earned," said Ryan.

"Considering we had been spending about 10 percent more than we were earning," said Christine, "I'd say that's incredible."

"The challenge now is for us to reduce our spending an additional 8 percent," Ryan said, looking over the numbers. "And I think I know of at least a couple of spending accounts we could cut back on even more."

"I know," said Christine, "I've been thinking about that, too. I'm sure we could reduce our spending in at least three areas."

"Well," said Ryan, "let's take a look."

Ryan and Christine proceeded to identify areas of discretionary spending that could be reduced even more—by making a few changes in what they purchased and how they took advantage of coupons and sales, they were able to reduce their groceries and clothing envelopes. By making a few low-cost improvements to the house—getting a programmable thermostat and adding a motion sensor for their outdoor lights—they realized they could save on their monthly electric and gas bills. They even looked into their phone and Internet service providers to see if they could save money there—and they could. Finally, by reducing the amount of money they spent on vacations, dining out, and entertainment, they got to the number they were looking for.

"That's it," said Ryan, "we've reduced our monthly expenditures by about $625 less than our income, just over 10 percent to put toward our debt reduction."

"It's hard to believe we could be so ruthless, where before we had so much trouble," Christine said.

"And if it doesn't work out," Ryan pointed out, "we have the ability to track our spending, compare it to the plan, and adjust accordingly."

"It is a lot easier," said Christine, "when you have a concrete goal in mind."

"And," added Ryan, "the tools to achieve it."

* * *

Ryan's best friend Rob Goldman stared at the little white ball sitting on the tee, wiggled the club head a few times, took a full backswing, and struck the ball, sending it slicing down the right side of the fairway.

"Dang it!" Rob exclaimed.

"Save a slice for me," said Ryan, laughing along with their two golfing buddies, Stan, a doctor, and Glenn, a local Realtor.

"Yeah, yeah," said Rob, "I seem to remember your last drive bouncing off a tree and getting lost in the rough." Of the four of them, only Stan was a serious golfer. Ryan and Rob played about once a month to relax, although lately Ryan had cut back to every other month.

Glenn teed off and hit a looping drive into the left fringe of the rough. Stan eyed his shot carefully, reared back, and hit the ball on a line straight down the middle of the fairway. Ryan's tee shot landed about 15 yards from where Rob's had landed.

"Looks like we're in it together, buddy," laughed Rob.

After Ryan and Rob found their balls and hit their second shots, they walked back up the fairway together. Rob asked how Ryan and Christine were doing, and Ryan asked Rob about Susan and the kids.

"I hear Megan's doing really well in school, that must be exciting," said Ryan.

"She's always been such a good student," Rob said. "And they have some really fine teachers at the high school she attends."

"So, have you started thinking about colleges yet?" asked Ryan. "It's got to be hard to imagine—I can still remember when Megan was just a baby."

"Ugh, college," said Rob with a sigh. "Don't remind me. I still have to figure out how we're going to swing that. Do you know how much tuition costs these days? And I'm just talking about *state* schools."

"I know, I know. At least Christine and I have more time to prepare for it," said Ryan. "Of course, who knows how much tuition will be in ten years?"

"True. I always thought there'd be enough time to prepare, but we just haven't been able to save the way I hoped we would. I've tried to work with Susan on our budget, but I just haven't had the time lately to keep tabs on things, and she's always resisted my trying to limit her spending. So I end up feeling like I'm just nagging her."

"Believe me, Rob, I know how hard that can be on your relationship."

"It's not just college, though," Rob continued. "We haven't put away anything for our retirement, except the little that's in my 401(k). I've tried to explain all this to Susan, but I just think it doesn't seem real to her. She has all her credit cards, and if one's maxed out, she just moves on to another one."

"You might want to try the system that Christine and I started using recently," said Ryan. "It makes it really easy to manage your spending, because it helps you track your expenses on a daily basis. Christine and I can talk about our budget together now without getting upset at each other, or ourselves. The principles of the system have taught us that focusing more attention on our purchasing habits can save us quite a bit of money . . . and heartbreak, for that matter."

"That sounds great," said Rob. "But I doubt Susan would ever use it."

"Well, I mean, I love to spend money," said Ryan, "so I never thought I'd be crazy about putting limits on my spending. But once you try it for a while, you like the feeling of having power over your money, of not feeling helpless—and of building up a nest egg."

"Well, I'll think about it."

"Here it is," said Ryan, as he came to a stop in front of Rob's ball. "It's your shot."

*   *   *

It was the two-month mark, and Ryan and Christine were on their way to meet with Tom to discuss their progress so far. They'd both come a long way, and were even beginning to implement their accelerated debt roll-down plan. They were excited to share their progress with Tom.

When Ryan and Christine walked into the office, they saw Shirley and started sharing the good news.

"Have you started your debt roll-down program yet?" Shirley asked.

"We created our plan about three weeks ago and have just begun to put it into action," said Christine. "Shirley, you must be an old pro at this by now. How long have you been using an envelope budgeting system?"

"For about three years now," she said. "Soon after the divorce, I found myself with more debt than I knew what to do with, and even when Russell was able to pay the child support, it wasn't nearly enough to do anything about the money I owed. When I came to work for Tom, he really helped me understand how I could control my spending with an envelope system."

"Three years, wow. So, have you been using cash envelopes this whole time?" asked Ryan.

"Well, when I first started, I learned how to use it the old-fashioned way, with some help from a good spreadsheet. Gradually, more sophisticated tools came along that allowed me to track my spending automatically in real time."

"That's fantastic, Shirley," said Christine.

"When I first started using the envelope budgeting system with Tom, we figured out that it would take me a little over 12 years to pay down all of my debt. Once I worked on reducing my spending by another

8 percent, I was on track to eliminate my debt within seven years. I've been doing it for three years, and I'm nearly halfway home."

Ryan and Christine just looked at each other and smiled.

Just then, Tom opened the door to his office and called over to Ryan and Christine, "Hey, you two, come on in. I can't wait to hear how you're doing."

*   *   *

Christine set out some salads. "Hurry up, Ryan, the Goldmans will be here any minute."

"I'm coming. Where do you want these bowls?"

"Just set them on the table next to the plates."

The doorbell rang, and then the door opened. "Hello. Anyone home?" called Susan.

"In here," called Christine.

"Here's a cake," said Susan, coming in through the front door.

"Where do you want it?"

"On the counter. We'll save it for later, when we get out the games."

Susan and Rob, along with their two children, Megan and Danny, filed into the kitchen, saying their hellos and how-are-yous. Rob lifted the lid on Christine's Crock-Pot. "Barbecued spare ribs. Yum."

"Go sit down. We're ready to eat."

Rob quickly grabbed a chunk of meat, then let the lid fall. "Yikes! It's hot!"

"Serves you right," said Christine. "Come on, time to feed the hungry masses."

During dinner, Ryan turned to Rob. "So what are you working on these days?"

"I'm writing a program that'll earn us a million bucks."

"Oh, yeah?" said Ryan.

"Yes," said Susan, "of course, in the meantime, we never get to see him."

"Right, I know you miss me," said Rob. "So you console yourself by buying shoes."

"Hey, they were on sale!" said Susan.

"Yeah, marked down from $250 to $125."

"Well, that's half off. You don't want me going around dirty and barefoot, do you?"

"You could fill a swimming pool with the shoes in her closet," Rob said, smiling to Ryan and Christine.

Susan rolled her eyes. "Someone has to enjoy the money you earn," she joked. "Anyway, let's change the subject. Who's on for games? Let's get this mess cleaned up." She stood up and began clearing the table.

"Can we play?" asked Chad.

"Sure, sport," said Ryan. "We'll play one game with you kids, then you let Mom and Dad play a game with Rob and Susan."

"I want to go first!" yelled Jennie.

"No, it's my turn. You got to play first last time."

"Did not."

"Did too."

"Stop it. We'll let Danny go first."

"Aw."

They played with the children for a while, and then Megan took them into the family room and settled them down with a video while she watched them. Back in the living room, the parents began a board game.

"You know what we need?" suggested Susan. "A weekend away. Just the four of us."

"Cheap, though," added Rob.

"One night, even. We could get a motel on the beach and just relax for a day," Susan said.

"I think she's serious," Rob responded.

"I think it sounds like a lot of fun." Christine picked up a game card.

"A real break from all the stress," said Susan. "It would likely cost only a couple hundred dollars for two exotic days and a night at a seaside inn."

"So who has $200?" asked Rob.

"Forget the cost," Susan declared. "Sometimes you just have to live a little. Come on, what about it, you guys? We could plan for, say, early April."

Ryan and Christine exchanged a knowing look, and Ryan pushed back his chair. "Honey, I'll go check my planner. Does anyone need anything while I'm up?"

"I could use another Coke," Rob said with a wink, and Ryan sauntered out of the room.

Ryan found his day planner in the office and reviewed the current spending envelopes. As he expected, the vacation envelope wasn't nearly as full as it needed to be. He made some quick calculations. *With the kids staying with my parents that weekend and with us gone for two days,* he thought, *we could reduce what we spend on groceries that week and move that money over to the vacation envelope. And, if we reduce our personal expenses, we might just be able to make this work. Still, we'll have to cut back on entertainment until then. It's a bit of a sacrifice, but we do need the break. It's worth it.*

Ryan grabbed Rob's drink and a bowl of chips from the kitchen on his way back to the living room. He handed Christine the spreadsheet with his adjustments in the margins.

"So, did you check your schedule?" Susan asked.

"Well, sort of . . . this is part of our new budgeting system," Ryan explained and turned to Christine. "Honey, I think we can make this work if we can cut back on some personal expenses and entertainment. Does that work for you, or do you want to plan for that money differently?"

"You know, if we could wait a month," said Christine while she studied the paper, "then there would be enough in the 'vacation' envelope without having to cut on personal items. But you're right, we'll have to tighten the entertainment budget a bit."

Christine looked up at her friends. "OK, we're on, if we can wait until May, and if you guys don't mind skipping over us for dinner and a movie a few times until then."

Ryan agreed. "That's a good month to take a short trip, and we can make our reservations now."

Rob didn't say anything. He just looked at Ryan. "You got it all paid for, and we haven't even left!"

Ryan looked at Christine and smiled.

"I know it may seem a little odd," said Ryan, "because we never used to manage our money very carefully. But we've gotten really used to using this envelope budgeting approach. It's becoming very natural to us now."

Susan was amazed at how Ryan and Christine could openly discuss money and spending without snipping at each other. Although she'd suggested the trip, she really didn't know whether or not she and Rob could afford it. Deep down, Susan knew that she'd feel a whole lot better if she could still buy the things she liked without having to wonder what it might be doing to their overall financial health.

"Honestly," said Christine, "it's not as tough as it looks."

Actually, it looks easier than what we've been doing, thought Susan.

Chapter Five

Money for Life

Ryan sat in a meeting with his boss Mike going over the details of Sierra, currently Medical One's largest project. Mike was pleased with the progress the project team was making. It was nearly the end of April. Just three weeks earlier, there had been a few red flags on Sierra, but with some hard work, Ryan and his team had been able to effectively address nearly every issue.

When they finished with the project review, Mike said, "Ryan, you're doing a great job here, and I wanted to let you know how much I appreciate all your hard work."

Ryan sat back in his chair and said with a smile, "Thanks, Mike. But I can't take all the credit. I've got a great team, and I owe most of our success to them."

"You do have a great team, Ryan, that's true. But you're the leader of that team, and you deserve a lot of the credit."

As Ryan rose to leave, his cell phone rang. "I'll catch you later," he said to Mike. As he walked to the door, he took the call. It was Rob.

"Hey, what's cooking over at Medical One?" asked the voice over the cell phone. "Have you guys started working yet today?"

Ryan laughed. "Are you kidding? You know us, we usually get a good start on things by, oh, 10:00 or 11:00," he joked. "So, are you out of bed yet?"

"Nope," Rob returned. "I'm still in my pajamas."

"Yeah, yeah," Ryan said, knowing Rob was always an early riser. He added, "You've probably already knocked down 10,000 lines of code this morning."

"No doubt," Rob quipped. "You know me, 100 lines a minute."

Ryan knew Rob was an excellent programmer. He had been with the same development company since graduating from college, and had gone from a technical assistant to one of their most senior programmers.

Finally, Rob asked, "Hey, what are you doing after work?"

"Well, Christine is going out tonight, so I have to be home by 7:00 to watch Chad and Jennie," Ryan answered. "What did you have in mind?"

Rob hesitated for a brief minute, and then he said, "I want to talk to you about finances for a few minutes. I want to know what kind of system you're using. Do you think you could meet me at Houlihan's after work for 30 minutes or so?"

Ryan smiled to himself. So Rob was curious. "As long as I'm on my way home by 6:30, I should be alright."

At 5 PM, Ryan shut down his computer and left the office. A few minutes later, he pulled into the parking lot in front of Houlihan's. Rob was already sitting at a booth inside.

They ordered drinks, and then talked about work for a few minutes. Finally, Rob confided in his friend. "Ryan, I'm not sure what you and Christine are doing differently with your money, but whatever it is, Susan and I need to be doing it, too."

"You must mean the envelopes?" asked Ryan.

"Yes," Rob responded. "So, what are these envelopes anyway? Susan and I need to figure something out. We have been struggling with finances for a long time, and it's starting to have a major impact on our relationship. Last night we had a fight about some pillows Susan bought—expensive down pillows. Later, after we had both cooled down, we talked for a long time. She told me about Christine using her handheld at the zoo, and I remembered how comfortably you two were able to budget our trip together. Do you mind if I ask you what you two are doing? Is this something new?"

Sitting forward, Ryan said, "Well, we're using the principles of a very traditional system of spending management. We've been working with a financial advisor who helped us get started with it. You have to do some work to set the system up, but we've found that it's incredibly easy to use, and it's allowed us to really get a handle on what we're spending, and what we're saving. Using these principles to track our spending on a daily basis keeps us from overspending without knowing about it."

"Wow," Rob said. "What about credit card purchases? That's where we've really gotten into trouble. They're so convenient, and we get reward points. But I don't think Susan realizes how much she's spending when she charges her purchases. We can never pay the entire balance each month. Over time, we just seem to max them out. I can't even remember how many times I've had the credit limit raised. Last month, Susan transferred the balance from one of our cards to a new card that offered an even higher spending limit—I mean, that is the *last* thing we need."

"Sounds painfully familiar," Ryan nodded his understanding.

Rob continued, "I'm always getting upset with Susan for using the cards, but to be honest, we really don't talk about our finances beyond that. A few years ago, we tried a personal financial software package. Although it helped with managing our checking account, it didn't really integrate our credit cards in a way that helped us make spending decisions."

"Envelope budgeting can handle managing credit card spending," Ryan began. "The entire philosophy is to set aside money in your checking account each time a purchase is made with a credit card."

Rob looked confused, "Do you have software to do that?"

"You can have software do it automatically, use a paper-based system, or a combination of the two," Ryan said. "Knowing you, Rob, I think it's safe to say that the software route would be the way for you and Susan to go. During setup of the software system, you create a balanced spending plan. This includes defining the amount of income you deposit in your bank account each month. You then create spending accounts, called envelopes, for each category of spending and divide your income among them. The allocations to your spending accounts cannot exceed your net monthly income."

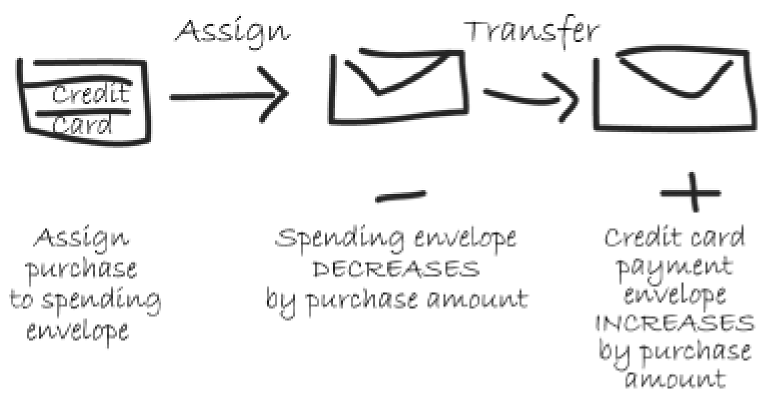
"So you budget every penny?" asked Rob.

"Yes. All money is accounted for. The software tool will access your accounts, including your credit card companies. However, it does something unusual with the credit card accounts. At setup, it automatically creates a repayment account for that card."

"That’s different," Rob said.

"It works really well," Ryan explained, as he took out a piece of paper and started to sketch. "When you track your transactions, including those from credit cards, you must assign each one to an envelope spending account. However, if that transaction was made with a credit card, the software subtracts the amount of that transaction from an envelope spending account and adds that amount to the repayment envelope, so the money will be there when it is needed to pay the bill." (See Figure 5.1.)

FIGURE 5.1 - Credit Cards and the Envelope Budgeting System



Rob looked stunned. "So, how would that work if I charged a dinner out on my card?"

Ryan replied, "Well, when you track the transaction, you assign it to, say, your ‘entertainment’ envelope. It will deduct the price of the dinner from that envelope and add it to the repayment envelope for that credit card."

"What if there isn’t enough to cover the expense?"

"Then you stop going out to dinner for the rest of the month!" laughed Ryan. "Seriously, though, you must decide where the money will come from and transfer the difference from another account to cover it. The idea is to keep a balanced budget and live within your means. The basic envelope principle started with cash-based spending, so it was self-enforcing—you simply couldn’t spend cash you didn’t have. The approach we’re using gives you the tools you need to enforce it yourself." Ryan paused. "When it comes to debt you already owe, you’ll have to create an envelope account solely for debt reduction and allocate funds to it each month. While you pay off that debt, the envelope system will help you avoid going further into debt by making it easy to set aside the money you need each month to pay for new charges."

"Wow, that sounds like it would work really well," said Rob.

"Remarkable, isn’t it?" said Ryan. "For the first time that I can remember, we have been able to successfully manage credit card spending within our monthly cash flow. Credit cards are completely integrated, and, of course, one of the major advantages is that you always know where you are with your spending plan."

Rob sat back and sipped his drink. "That’s why you two went to your day planner the other night before committing yourselves to a weekend away."

"Yes. When we travel, we'll likely use our credit cards, but we must know, first, which envelope spending account will handle the transactions," Ryan said, finishing off his drink. "By applying the envelope principles, Christine and I have already been able to start reducing our consumer debt. One of our goals is to completely eliminate our consumer debt as quickly as possible." Ryan looked at his watch. "I need to take off. Let me know if you're interested, and I'll get you our financial advisor's number. Or, if you have any other questions, just give me a call. I'll be happy to provide whatever input I can. I'm sure you and Susan can turn things around."

"Thanks for taking some time with me," said Rob. "I think I'll ask Susan if she wants to sit down with me later tonight and talk about this. An envelope approach may be just what we need."

* * *

Ryan and Christine were on their way to meet with Tom. They had reached their 12-week milestone and felt they were making great progress. In that relatively short period of time, their envelope budgeting system had become a big part of their life. Looking back, Ryan wondered how they had ever survived without it. But then, on second thought, just surviving was exactly what they had been doing only a few months ago.

As they arrived, Tom emerged from his office with an older, African-American gentleman and his wife. "Hello, Ryan and Christine," he said, shaking hands with them. Turning to the couple with him, he said,

"Let me introduce you to Walter and Lucy Howard. We have been working together for more than 30 years. They were actually one of my first clients. Walter and Lucy, this is Ryan and Christine Richardson. They came to see me about 12 weeks ago and have been using a computerized version of envelopes since then."

Extending his hand to Walter, Ryan said, "It's a pleasure to meet you both."

"Likewise," Walter responded.

Lucy shook their hands and said, "It's so nice to meet you."

"So," said Walter, "how do you like the envelope budgeting system so far?"

"It's been a big help to us," said Ryan.

"It's amazing how much these simple principles have helped," Christine added. "Are these what you've been using all these years?"

"Well, yes," said Walter. "Not with computers, but the old-fashioned way. When we first started working with Tom, we had some savings, but we also had a lot of debt. He was the one who figured out that if we could manage our spending, we could get rid of our debt and have a lot more to invest." Tom nodded and smiled.

Walter continued. "He looked into it and came back to us with the envelope budgeting system. We've been using it ever since."

"So you've found it helpful?" asked Christine.

"You could say that," said Lucy with a smile.

Tom cleared his throat and put his hand on Walter’s shoulder. "Once Walter and Lucy paid down their debt," he said, "they were able to make some strategic investments. Some retail businesses downtown . . . "

"The Piggly Wiggly on 9th," said Walter, "and the Popeye’s on Larrabee and 12th. We also own some commercial real estate downtown and an apartment building in the Lakewood neighborhood."

"Wow," said Ryan. "Have you always been an entrepreneur?"

"No," Walter said. "Most of my career, I was a technician at the Cedar Rock power plant. Lucy was a librarian at the public library. I let others manage the businesses, but I keep an eye on each of the operations."

"That’s so impressive," said Christine. "I hope we’re able to do even half as well."

Walter smiled at Christine and said with a wink, "Once you save your first million, it gets really fun."

Ryan gave Christine a perplexed look, as the Howards said goodbye and walked down the hall.

"Come in and have a seat." Tom led them into his office. "Now, there’s a great example of what you can accomplish when you adopt the envelope principles and continue to follow them. Walter and Lucy had modest incomes, yet by adopting the envelope principles, they stayed in control of their financial world and planned for their future."

"That’s great," Ryan said. "They certainly seem to be enjoying their retirement."

"They just returned from an extended trip to California, where they were visiting their oldest son and his family. Now, they’re planning a cruise in Finland." Tom sat back and looked directly at them. "They are doing exactly what they want to do. And they have the money they need to keep doing what they want to do for the rest of their lives. That’s the power behind the principles you are now following."

"Just out of curiosity . . . " Ryan began.

Tom broke in, "What Walter said about their first million?"

"Yeah."

"He wasn’t kidding."

Ryan and Christine looked at each other, then back at Tom, a little in shock. "A technician and a librarian," Christine said, smiling at Ryan. "Do you think we can accomplish that, honey?"

Ryan smiled back. "It might be a little early to tell, but I think we’re on the right track."

Tom leaned forward in his seat. "You don’t have to pull down six or seven figures to become wealthy. And, you don’t have to have significant wealth to be financially fit and happy. It’s all about spending less than you earn, and doing it consistently over time. If you can do it for 32 years, just imagine where you’ll be." Tom paused, as his last statement sunk in with Ryan and Christine. "So how are you doing? You have been at this project for just over 12 weeks now. Tell me about your progress."

"Christine and I reviewed the numbers carefully last night, and honestly, we are amazed. First of all, we had over $1,000 in our checking account at the first of the month. That is an absolute first for us. Second, we have managed to pay off an additional $600 in consumer debt by transferring the savings from some of our envelope spending accounts at the end of each month to our debt-payment envelopes."

Christine spoke up. "When I look at how we approach things today, and our philosophy toward spending and financial management, I just can't believe the difference. It's been a very big transformation for us. I know that if we continue applying the envelope principles, we will reach our financial goals, including the complete elimination of our debt."

"Yes, you will," Tom responded.

"As we were looking over our envelope account balances last night, Christine and I decided to reward ourselves with a vacation as soon as we have reduced our consumer debt by $3,000. The great thing about envelopes is that for the first time, we will have the money set aside in advance of taking the vacation."

"It may not be as upscale as previous vacations," Christine added, "but we will know that it is paid for before we leave."

"There are few feelings better than knowing that you have money set aside for future requirements. The two of you have made exceptional progress with this system. Best of all, you have done this together without any real help from me."

"But you have been a great help to us," protested Ryan.

"I provided the introduction to the tools and philosophies you needed, and the two of you did all the work. When you make these principles a part of your daily life, the results can be extraordinary. And that's what it's all about—assisting ordinary people to achieve extraordinary financial results. You are absolutely on the right path."

"Thanks for your confidence in us," Christine responded.

"As soon as you have removed additional debt and have started accumulating more in savings," Tom said, "let's meet again and prepare a detailed financial plan for the future."

"That sounds great," Ryan said. "When we first started this project, we weren't sure it was possible to achieve the kind of results you were talking about. Now, I believe it more than ever. Living within our income and planning for our future is exactly what we want for our family."

* * *

Nine months after starting to use the envelope spending management system, Ryan and Christine found themselves walking hand in hand in the cool, white sand of the Caribbean. It was their second day of a weeklong vacation to St. Thomas. The early morning air was crisp and clean. Ryan found the spot he was looking for—a flat area nestled between several rocks on a small hill overlooking the surf. He set down the picnic basket and spread a blanket on the sand.

Sitting down, Christine opened the basket and began arranging things. "Thanks for bringing me to this wonderful place, sweetheart."

"We earned it. We've both worked together these last nine months to dig ourselves out of the hole we were in."

As she finished emptying the contents of the basket, Christine reached for Ryan's hand. "I think this is the most wonderful vacation we have ever taken together."

"We have certainly spent less than in the past."

"I know, but this time it's paid for. I feel so free and happy, knowing we can afford this time together."

"Do you remember last Christmas? We set a goal for ourselves . . ." Ryan reminded her.

"We did, didn't we?" Christine said with a smile. "And we found exactly what we were looking for."

Epilogue

One year later . . .

RYAN AND CHRISTINE RICHARDSON

Ryan and Christine have substantially reduced their consumer debt. They have completely paid off their store charge card and both of their credit cards, and they are seven months away from paying off their auto loan. Since they no longer need two credit cards, they've eliminated one. They now only use one card, have enough money allocated through their credit card repayment envelope each month to cover whatever they charge, and because of the accelerator created by the elimination of other debt, they are paying down their remaining debt at an ever-increasing rate. In one year, they will have eliminated all of their debt, with the exception of their mortgage.

Ryan received higher-than-average bonuses over the past year and received another substantial raise. Christine also received a good raise at her school. Instead of automatically spending more because of their increased income, they took a careful look at all of their spending accounts and revised their current plan to put more into debt payments and savings, with some necessary increases to a few key spending accounts. They are on pace to eliminate all of their debt within about seven years. With the extra income and the money they've freed up by eliminating debt, they are not only increasing the rate at which they can pay off their remaining debt, they have begun to invest some of their money for college and retirement. They plan to meet with Tom Maxwell again in another year to go over a thorough financial plan for their future. Ryan and Christine no longer bicker about money and are able to discuss financial issues freely and naturally.

ROB AND SUSAN GOLDMAN

Rob and Susan met with Tom Maxwell, who challenged them to use the same principles that Ryan and Christine had put to work. Going through the initial setup phase of the process was an eye-opener for Susan. At first, it was difficult for Susan to get used to paying attention to her spending in this way, but she could see the positive results her change in behavior was having and stuck with it. Rob, who was surprised himself to discover how much he was spending in certain categories each month, learned more than he realized he would. Although they've only been using an envelope system for nine months, they have worked with Tom to create a plan to substantially reduce their debt at an accelerated pace, and to create a college fund for Megan that will be the primary focus of their savings before creating a separate retirement account for themselves and another college fund for Danny. Although it hasn't always been easy, both Rob and Susan have found the use of the envelope principles to be far easier than going down the road they had been on a year before.

SHIRLEY CHANG

Shirley saw her son David enter high school in the fall. She is currently on track to completely eliminate her debt within three years and has a substantial amount of money put away for David's—and Sam's—college tuition. Now, when Shirley goes shopping with Christine, they compare notes on how well each is doing that month staying on top of their spending accounts.

JOHN AND PATTY RICHARDSON

Following her conversation with Ryan in the kitchen after the barbeque last year, Patty decided to have a talk with her husband John after all. Although John was reluctant to discuss it, they did eventually come to an agreement that something needed to be done differently. When Ryan told his father about meeting Walter and Lucy Howard, and how much they had accumulated over the years, John decided to work with Patty on an envelope budgeting system. After creating a new spending plan with the help of their financial advisor, both John and Patty decided to put off retirement for another year, so that they could eliminate more of their debt while they were still bringing in more income. Now, both John and Patty are looking forward to retirement, secure in the knowledge that they have more control over their money.

WALTER AND LUCY HOWARD

Walter and Lucy returned from their cruise in Scandinavia in July and, a month later, visited their daughter's family in Boston. Walter sold the fast-food franchise for a substantial amount in the fall. He and Lucy made the first of nine planned $10,000 gifts, this first one to their oldest grandchild, Anthony, who will be enrolling in Stanford University next fall. The money will help pay for tuition, books, and room and board.

Afterword

I hope you enjoyed reading *Money for Life*. I felt a strong motivation to write it. I am certain that when the principles outlined in this book are followed, you will achieve the same satisfaction and financial success that the Richardsons experienced. I know this from personal experience. This is one of the primary reasons I assisted with developing Mvelopes ® Personal, a computer-based envelope spending management system.

My challenge to you is to try these principles for yourself. The simple truth is, it is impossible to get out of debt or build wealth if you spend more per month than you make. This seems obvious, but many people continue to overspend. And the primary reason is ineffective spending management. Everyone needs a spending plan regardless of how much they make. Whether you use cash, paper and pencil, a spreadsheet, Mvelopes Personal, or something else, you need to do something. And you need to get started now—it's that important. It will not only affect your long-term financial security, but also your happiness—believe me!

Fortunately, you don't need to rely on my word alone. With the software on the enclosed CD, you will be able to use the Mvelopes Personal system free of charge for 30 days. If you consistently apply the principles outlined in this book and continue using Mvelopes Personal, you will significantly enhance your long-term financial security, as Ryan and Christine Richardson did, and as thousands of their real-life counterparts have.

Thank you for reading *Money for Life*. I wish you success in taking your next step toward financial fitness.

Steven B. Smith

Appendix A

Mvelopes® Personal: An Envelope System for Today's World

Mvelopes® Personal is a tool being used by thousands to successfully implement the envelope principles on a daily basis. When Tom met with Ryan and Christine, he introduced them to a computer and Internet-based system that automated the envelope process. This was very important to them because of the complexities associated with managing finances in today's world. As our society becomes less dependent on traditional forms of payment and more focused on cashless spending tools, it is important to utilize a tool that will allow you to create a context for decision making by appropriately incorporating all types of spending from all types of accounts.

At the back of this book you will find a CD containing the setup information necessary to utilize the Mvelopes Personal system. This system has been provided to you to use risk-free for 30 days. To begin using Mvelopes Personal, simply insert the CD into the CD-ROM drive of your computer and follow the activation instructions. If no CD has been included, please go to http://www.mvelopes.com/moneyforlife to get more information.

Mvelopes Personal will allow you to successfully implement the envelope concepts outlined in this book. As you begin using the system, it will assist you with defining your initial spending plan, automatically track all of your transactions, automatically update your envelope spending account balances, and allow you to make timely and appropriate adjustments.

A brief description of the key features and benefits of the Mvelopes Personal system follows.

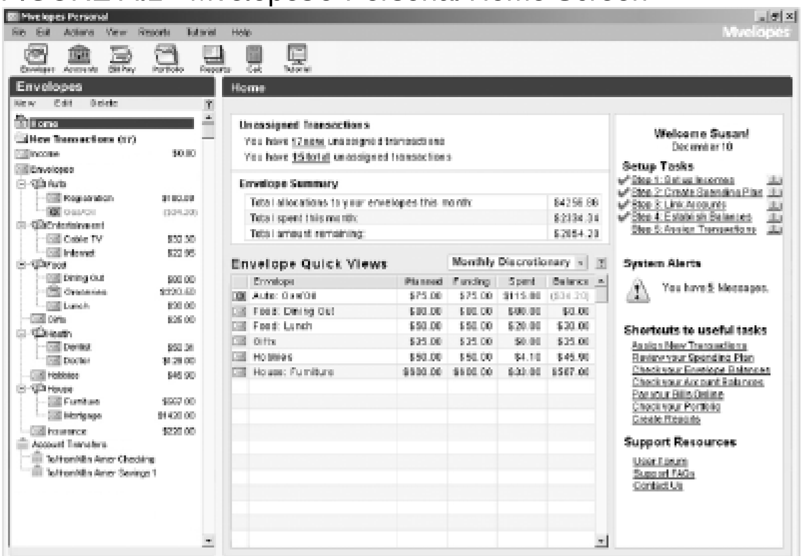
EASILY CREATE A BUDGET: YOUR SPENDING PLAN

Mvelopes Personal allows you to simply and easily define your monthly income and then set up spending accounts, or envelopes, to which you allocate that income. When you receive a paycheck, Mvelopes lets you split the amount between the various spending accounts you have set up. Spending categories are completely up to you. You can create as many envelopes as you need, and you can group them under category headings as you see fit. For example, the automobile expenses group may contain envelopes for gasoline, repairs, and insurance. By creating envelopes for periodic expenses, such as vacations, car registration fees, or an emergency fund, you can set aside money today for your future spending requirements. Setting a portion of your income aside each month will mean that the money will be there when periodic expenses are incurred, so you do not have to increase your debt to meet these spending requirements.

MANAGE YOUR SPENDING WITH ANYTIME, ANYWHERE ACCESS TO YOUR BUDGET

A real advantage to Mvelopes Personal is that it is an online budgeting system, which means you are not tied to your home computer. You and your partner can have anytime, anywhere access to your budget through the Mvelopes secure online service. This means both of you can be looking at your daily spending activity at the same time—at work, at home, on the road, or anywhere you have Internet access. As with Ryan and Christine, when you both stay involved in the budgeting process, you can count on being successful. Mvelopes allows you to securely and easily access your information from anywhere, providing you with the ability to make informed spending decisions. (See Figure A.1.)

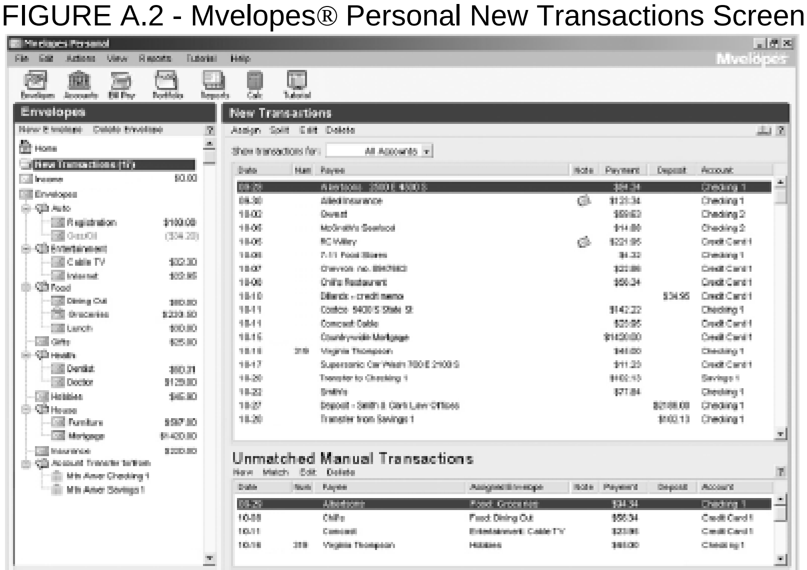
FIGURE A.1 - Mvelopes® Personal Home Screen



EASILY TRACK ALL YOUR SPENDING

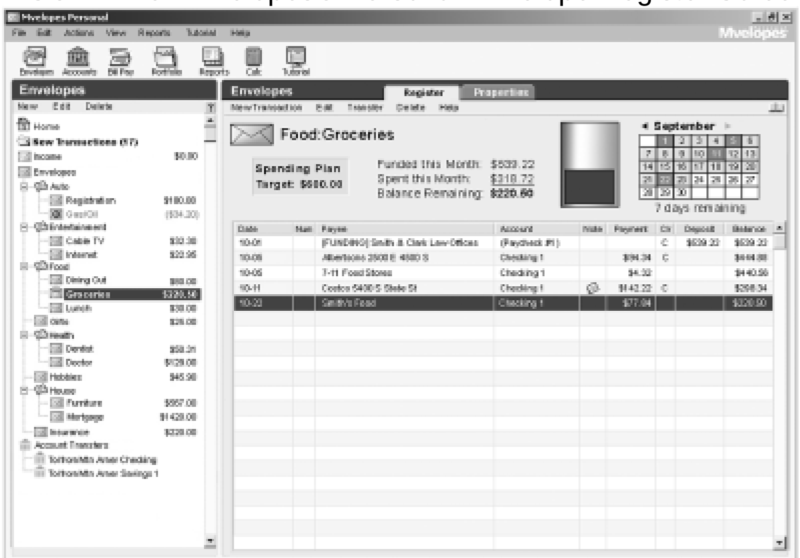
Mvelopes Personal retrieves all your spending and deposit transactions on a daily basis, automatically, from your bank, credit union, or credit card company, bringing all your transactions into one place for you to see. (See Figure A.2 for an example.)

FIGURE A.2 - Mvelopes® Personal New Transactions Screen



The interaction you have with each transaction makes managing your spending easy. Mvelopes retrieves each of your transactions from all of your online banking and credit accounts. Each transaction is assigned to an envelope, where the expense is deducted from the income that you allocated to that envelope. You will then be able to see your balance and know exactly how much you have left to spend in each envelope spending account. By always knowing exactly how much you have left to spend, you can make better spending decisions. (See Figure A.3.)

FIGURE A.3 - Mvelopes® Personal Envelope Register Screen



RECOVER UP TO 20 PERCENT OF YOUR INCOME FROM HIDDEN SPENDING

By knowing where your money is going using the Mvelopes Personal unique approach to spending management, you will be able to recover between 10 and 20 percent of your income from hidden spending. All those little purchases can add up to more than you realize! With better tracking and forecasting, you can recover that money. For example, over the course of a year, based on a $40,000 salary, 10 percent would be an extra $4,000 to use for debt reduction, savings, or investments.

AUTOMATICALLY PAY ALL YOUR BILLS ONLINE

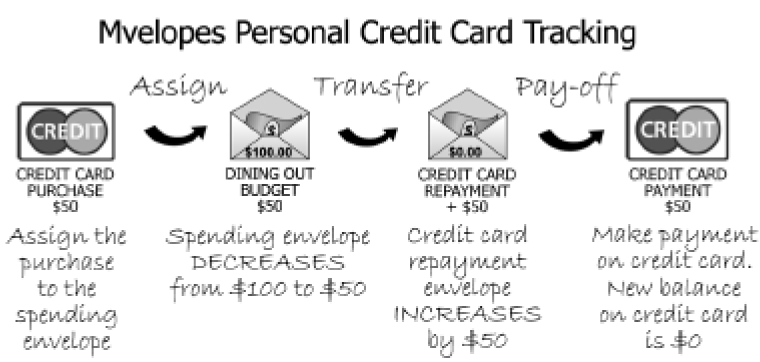
Included with Mvelopes Personal is a complete online bill payment service—no more writing checks, licking stamps, or going to the post office. Payments can be made manually, set up for automatic payment each month, or with the arrival of an electronic bill. The service allows you up to 20 payments a month, which could save you more than $7 a month in postage alone. Payments can be made to any company, store, financial institution, utility company, or individual, eliminating missed payments and late fees. (See Figure A.4.)

FIGURE A.4 - Mvelopes® Personal Bill Pay Screen

EFFECTIVELY MANAGE CREDIT CARD SPENDING WITHOUT ADDING ADDITIONAL DEBT

In today's society, credit cards are often used as an income source instead of a convenient spending tool. Consequently, there is usually no income available at the end of the month to pay off the debt. Mvelopes manages credit card purchasing by automatically moving allocated funds from your spending envelopes to a credit card repayment envelope every time you use your card. Here's how it works: When you use your credit card to pay for dinner at a local restaurant, that transaction is received into Mvelopes and assigned to your dining out envelope. That amount is then deducted from the dining out envelope and placed into your credit card repayment envelope. (See Figure A.5.)

FIGURE A.5 - Mvelopes® Personal Credit Card Tracking



At the end of the month, you will have money set aside to pay off your credit card in full—no additional debt incurred and no outrageous interest payments.

QUICKLY ELIMINATE DEBT

Mvelopes users have found that by managing their spending closely, they are able to eliminate overspending and even save extra money each month. In many cases, there will be money left in several of your discretionary envelopes at the end of the month. By sweeping those extra amounts into current debt payments, you can quickly eliminate your debt.

If you have more than one debt, when that first debt is paid in full, you can roll that whole payment amount plus the extra into your next priority debt on the list (see debt roll-down in Applied Principle 15, page 116). Once you are debt free, you can roll those former debt payments into savings and investments to provide a more financially stable future for yourself and your family.

MANAGE YOUR COMPLETE PORTFOLIO

Track all of your investments from Mportfolio⇔, so that you can see the big picture from one summary page. As an integral part of your Mvelopes Personal budgeting system, you can customize Mportfolio to access and track all of your investment accounts, such as IRAs, 401(k)s, and mutual funds. This summary page allows you to see your complete financial picture in one quick snapshot, rather than surfing around to several different sites to see the balances in all your varying accounts. (See Figure A.6.) Should you want to make changes to an account, you can simply click on that account to access the screen where you can make the appropriate adjustments.

FIGURE A.6 - Mvelopes® Personal Mportfolio™ Screen

GENERATE CLEAR, INFORMATIVE REPORTS

With Mvelopes Personal, you can generate any number of reports that will help you see where you are in your quest to become financially fit. These reports make everything easier, from doing your taxes, to planning a special event, or even just reviewing your financial status. (See Figure A.7.) Reports can be generated in numerous ways:

- Search for transactions by payee or by date.
- Review transactions or envelope registers for a certain day, week, or month.
- Calculate what portion of your expenses are in a particular category.
- Compare income allocation against actual expenses for any envelope category by day, month, and year.
- View the current status of your envelopes and accounts with the monthly allocation, balance, and current spending.

FIGURE A.7 - Mvelopes® Personal Summary Report

Mvelopes Summary Report

Group Name	Mvelope Name	Monthly allocation	Spent this month	Current balance
	Childcare	$180.00	$0.00	$180.00
	Clothing	$150.00	$56.25	$93.75
	Donations	$30.00	$0.00	$30.00
	Household	$100.00	$0.00	$100.00
	Miscellaneous	$50.00	$0.00	$50.00
	Savings	$408.17	$0.00	$408.17
Allowances	Me	$50.00	$0.00	$50.00
	Spouse	$50.00	$0.00	$50.00
Auto	Gas & Oil	$133.00	$25.00	$108.00
	Registration	$33.33	$0.00	$166.69
Debt/Payments To	American Express	$0.00	$23.67	$123.67
	Citibank VISA	$60.00	$0.00	$60.00
Debts	Car Payments	$630.00	$0.00	$630.00
	Mortgage	$1,200.00	$0.00	$1,200.00
Entertainment	Cable & Internet	$50.00	$0.00	$50.00
	Movies/Events	$125.00	$8.10	$116.90
Financial Plan	College Fund	$50.00	$0.00	$50.00
	IRA	$100.00	$0.00	$100.00
	Investments	$100.00	$0.00	$100.00
Food	Dining Out	$140.00	$23.87	$116.13
	Groceries	$415.00	$0.00	$415.00
Health	Co-Pay/Supplies	$75.00	$0.00	$75.00
Insurance	Auto	$100.00	$0.00	$500.00
	Health	$100.00	$0.00	$100.00
	Housing	$41.00	$0.00	$41.00
	Life	$110.00	$0.00	$110.00
System	Monthly Funding	$0.00	$0.00	$979.14
	Shortfall	$0.00	$0.00	$0.00
Taxes	Property Taxes	$100.00	$0.00	$100.00
Utilities	Electricity	$111.00	$0.00	$111.00
	Gas	$36.00	$0.00	$36.00
	Mobile Phone	$50.00	$0.00	$50.00
	Phone	$72.00	$0.00	$72.00
	Water	$30.00	$0.00	$30.00
	Totals	**$4,887.50**	**$137.09**	**$6,410.65**

RECEIVE UNLIMITED CUSTOMER SUPPORT AND BUDGET COACHING

Included with your Mvelopes Personal online service is unlimited telephone support and coaching, as well as access to our message boards, FAQs, tutorials, and e-mail support. Members also receive a monthly online newsletter with tips for using the Mvelopes system and other useful financial fitness suggestions.

AUTOMATIC FEATURE UPGRADES AT NO ADDITIONAL COST

Any upgrades to the Mvelopes Personal online budgeting system are included free of charge to all Mvelopes members—no more worrying about paying for and upgrading to the next version of software.

IN SUMMARY

For additional information, please visit www.mvelopes.com. If you are looking for a financial advisor, educator, or coach who understands the Mvelopes Personal system and would like contact information, please to go to http://www.mvelopes.com/resources and simply find the resource most suited to your needs.

Index

$14.95/Personal Finance
CAN $22.95

Money *for* Life

Ryan cringed and turned to Christine, "What happened to our peaceful lifestyle? Financial things were so simple and easy in the past." "I don't know Ryan, but we can't continue to live like this much longer," the memory of her recent experience at the checkout line still fresh on her mind. "All I know is our relationship has changed, and I don't like where it's going."

Understanding the perilous direction they were headed—spending more money than they made—Ryan and Christine Richardson have decided to change their financial course. Join them on a journey as they transform their life by learning time-proven principles for achieving financial fitness in just 12 weeks!

Money for Life teaches real-life lessons about how to achieve financial fitness through the implementation of a back-to-the basics budgeting approach based on the timeless "envelopes" method of budgeting. After reading Money for Life you will be empowered to:

- Stop spending more than you make.
- Plan for unexpected expenses, including emergencies.
- Set money aside in advance of spending requirements.
- Implement a household budgeting system that makes communicating easy, even fun.
- Put a plan in place for debt elimination.
- Use credit cards without increasing debt.
- Successfully manage your money in today's "cashless" electronic society.

"The beliefs, habits, and behaviors of the characters whose stories are told in *Money For Life* are ones we can all relate to and learn from. Achieving long-term financial freedom is not complicated, but it takes discipline and effort. Make the 12-week commitment to live by the principles of this book. This is the first step in financial planning, and it can change your life!"

—Sheryl Garrett, CFP®, Founder, The Garrett Planning Network, Inc., and Author, *Just Give Me the Answer$*

Steven B. Smith is chairman and CEO of In2M Corporation, a financial software and services company. Before founding In2M in 1999, he participated in a broad range of business activities as a senior member of executive teams for both private and public companies, including Megahertz, Floppy Copy and DeltaValve. He lives in Salt Lake City, with his wife and four children.

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