<u>Your Money or Your Life</u>
Middle School Study Guide

To be used with the book
Your Money or Your Life
by **Joe Dominguez** and **Vicki Robin**
A Penguin paperback

Produced by
The New Road Map Foundation
and FI Associates

Created by Lynne Cantwell
and based on
"Your Money or Your Life: A Study Guide for Groups"

Distributed by The Simple Living Network

Your Money or Your Life: Middle School Study Guide, to be used with the book *Your Money or Your Life* by Joe Dominguez and Vicki Robin

It is our hope that this Study Guide will serve you well. If you have any comments or suggestions, please feel free to contact us.

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Acknowledgements

Thanks are in order:

- To the New Road Map Foundation and FI Associates, for continuing to fight the good fight;
- To Monica Wood, for her support, enthusiasm, and editing prowess;
- To my volunteer editors, Christiane Bach-Heuker, Joseph Beckenbach, Kevin Cornwell, Linda Farris, Cynthia Knowles, Lou Liserani, Kelli Loveless, Sherry Nash, Robert Neuenteufel, Carol Nierman, Alan Seid, Mary Shaffer, Mary Wilson and Tina Wong, as well as a number of other folks who took a look at the manuscript but didn't comment on it;
- To Linda, Kevin and Lou, a special thank-you for bailing me out of a mistake on the chart on p. 23;
- And last but not least, to my inspiration and my In-House Editorial Board, Kathryn Milyko and Amy Milyko, who gave me insight from the trenches one evening over pizza, and to whom this Study Guide is dedicated.

Lynne Cantwell
March 2001

To Parents

This Study Guide has been developed as a project of the New Road Map Foundation and FI Associates. It's an effort to take the message, and the exercises, in the book *Your Money or Your Life* by Joe Dominguez and Vicki Robin, and make them understandable and accessible to middle school age children.

Kids at this age are past the stage where their sole input into the family's financial life is to watch TV and scream, "Mommy, I want that!" Many of them have significant amounts of money that they themselves control. You may be feeling dismayed by the things they're spending that money on. You may be feeling even more dismayed by the amount of money and stuff they think they need in order to feel accepted by their peers.

Your Money or Your Life addresses these feelings by introducing the concept of "enough" in a graphic manner. It explains how owning too much stuff isn't any better for you than eating too many sweets. It outlines a series of doable Steps that, we hope, will teach your child financial skills – real-world skills – that will last him or her a lifetime. We believe that there's no point in teaching a child how to invest in the stock market if he or she can't make his or her allowance last until the next "payday".

We believe that everyone can benefit from the information in *Your Money or Your Life*, and we hope that, if you're not already familiar with the book, you will look it over as your child works through this course. If you don't have time to read the book, an audiobook version has just been released. It would be ideal if you could work through some of the exercises with your child. In fact, don't be surprised if your child challenges you to become involved -- we are challenging him or her to involve *you*.

We believe very strongly that to end America's severe case of affluenza, we must begin by inoculating our children. This Study Guide is a first step.

The New Road Map Foundation
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To the Student

You're probably thinking: "Why are we doing this? What's in it for me?"

Have you ever:

- Wished that you could clean your room in 15 minutes?
- Found yourself broke the day after receiving your allowance or paycheck, and had no idea where the money went?
- Dreamed about being on an endless summer vacation?

You can find the answers to all of these questions in *Your Money or Your Life*, by Joe Dominguez and Vicki Robin. The answers aren't just handed to you, however – you'll have to do some work to find them. This Study Guide will help you. (Isn't that endless summer vacation worth doing some work for?)

One thing we can guarantee: If you complete all of the work for this six-week course, you will end up smarter about money than the average American adult. Who knows? You might even be able to teach your parents a thing or two.

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Session I

In which you will learn what money is, and that budgets are like diets -- they don't work.

Class Exercise: What is money?

Your teacher will set up a line at the front of your classroom. Zero, or "Neither Agree nor Disagree", should be at the middle of the line, and the end points should be at the side walls. When finished, the line will look like this:

-10------------------------	-5 ------------------	0 ------------------------	+5 ---------------	+10
Strongly Disagree	Partially Disagree	Neither Agree nor Disagree	Partially Agree	Strongly Agree

Then your teacher will read to you, one at a time, the following statements. Your job is to stand at the point on the line that corresponds to the way you feel about each statement.

1. Money is a good thing.
2. Having money gives me a secure feeling.
3. Having money makes me want to spend it.
4. I save part of my allowance or paycheck.
5. I never have enough money.
6. I owe money to somebody else.

If you agreed that you never have enough money, you're not alone. Juliet Schor wrote in her book *The Overspent American* that 27% of adults who earn more than $100,000 per year agreed with the statement, "I cannot afford to buy everything I really need."

Even though per capita (per person) income rose by 62% in the United States between 1970 and 1996, the quality of life in the United States dropped by 51% in that same period of time.

If you save part of your allowance, congratulations! You're part of a dying breed. The percentage of disposable personal income (the part of your allowance or paycheck that doesn't go for bills) in the United States set aside for savings has dropped like a rock – from 8.2% in 1980, to 4.5% in 1995, to -.8% (yes, *negative* eight-tenths of a percent) in 2000.

If you owe money to somebody, you're part of a disturbing trend. The American Savings Education Council found in 1999 that 7% of high school kids have a major credit card. The average credit card balance carried by college students was about $2,250 in 1997. Overall, the Federal Reserve says, American consumers owed $569 billion on their credit cards in 1999.

So what *is* money? *Your Money or Your Life* defines money as **something we trade our life energy for.** Think of it this way: You have time and energy, which together can be thought of as your **life energy**. There are hundreds, maybe thousands, of ways for you to spend your life energy. Some people – employers – want to pay you money in exchange for spending your life energy working for them.

But as *Your Money or Your Life* makes clear, your employer isn't paying you for *all* of the life energy you spend on your job. You have to spend part of the money you earn on clothing for your job, and for lunches at work, and for day care, and for transportation to and from your job. And you have to spend time shopping for and cleaning the clothing, and maintaining the car, and getting back and forth to work, and entertaining clients, and winding down from your workday. In short, your **real hourly wage** is probably a lot less than your employer is paying you.

You can read about how to calculate your real hourly wage on pp. 59-68 of *Your Money or Your Life.* If you have your own job or if you get paid for doing chores around the house, you can calculate your own real hourly wage. Or you can help your parents calculate their real hourly wage.

What is a budget?

Maybe you've heard your parents talk about the family budget. Maybe they've threatened to put *you* on a budget.

When drawing up a budget, you take your total income for the month, subtract your fixed expenses and your variable expenses, and hope you have money left over at the end.

Class Exercise: Complete the Worksheet on the following page.

Budget Worksheet

1. Every Friday, you get $10.00 for allowance. If there are 5 Fridays in this month, how much in allowance will you get? ____________
2. Your birthday is on the 2nd and your grandmother sends you $20.00. Now how much do you have for the month? ____________
3. You earn $5.00 for walking the neighbors' dog while they are away one weekend. Now how much do you have? ____________

This is your **income** for the month.

4. Out of your allowance, you're expected to pay for things like lunches and treats. You always buy lunch 8 times and ice cream 8 times each month. Lunches are $1.00 and ice cream is 25 cents. How much do you have left? ____________
5. You also have to pay for Scout dues. There are 4 meetings this month. Dues are 25 cents a meeting. What's left? ____________
6. You take the bus to piano lessons every Saturday. The bus fare is $2.00 round trip. You have 5 lessons this month. How much is left? ____________

The transactions above are examples of **fixed expenses** – things that you pay for every month.

7. Time to hit the mall! At one store, you pick out a new shirt for $14.00, a necklace for $3.00, and some trading cards for $7.00. What's left? ____________
8. The next week, you see the latest CD from your favorite group for $10.00. How much is left now? ____________
9. You go bowling with your friends. Shoe rental, one game, and snacks add up to $8.00. How much do you have left now? ____________

That takes care of your **variable expenses**, and you still have money left to put in your savings account! Or -- do you?

10. Uh-oh. You just got an invitation to a birthday party. You really want to go, but your parents expect you to buy the gift yourself. Now what?? Brainstorm some solutions with your class. ____________

Did you think about making a gift for your friend? How about giving a gift of your life energy? What could a gift of life energy look like?

The worksheet illustrates a typical month for people who budget. The budget looks really good on paper – but then real life intervenes. *Your Money or Your Life* provides a more realistic way of determining whether you're living within your means. The first step in that process is this: **Keep track of every cent that comes into and goes out of your life.** This will give you a concrete picture of what you *really* spend your money on.

Keep Track of Every Cent that Comes Into and Goes Out of Your Life

Every nickel you find in the hallway, every gumball you buy out of a machine: *Write it down.*

You'll be doing this every day for the next few weeks, so you need to develop a system that works for you. Perhaps you could use a small spiral notebook that you can carry with you everywhere. Or you could set aside space in your school binder. Some people simply collect receipts, but some places (a gumball machine, the ice cream truck, the school cafeteria) don't give receipts, so you're probably better off with another alternative.

You can set up your page any way you want, but here's one example:

Item	Money In	Money Out
Allowance	$10.00	
Trading cards		$6.00
Ice cream		.50

Assignment:

(Note: All page numbers in the assignments refer to *Your Money or Your Life* unless otherwise indicated.)

1. Reading: Prologue; pp. 69-74, Keep Track of Every Cent.

2. Begin keeping track of every cent.

Session II

In which you will learn the meaning of *enough*, and the way marketers target you

Class Check-in/Evaluation:

How is your system of keeping track of expenses working out? Any problems? Discuss them with the class. Maybe someone else's system will suggest a solution to a problem that you may be having.

Did you learn anything surprising while tracking your spending this week?

Were you able to calculate your real hourly wage (or your parent's real hourly wage)? What was your (or your parent's) reaction to the result?

What is *enough*?

We talked last time about how money is something we choose to trade our life energy for. The example we used was employment – you trade your life energy to an employer in exchange for money. But it also works to talk about it in terms of exchanging money for stuff. And it even works if the only thing you did to get your money was to put up with your parents so that they'd give you your allowance.

Think about this: When you buy something, you're not paying the seller money – *you're trading away your life energy*. And if your room looks like most kids' rooms, you're expending more of your life energy after you bring your purchase home, to store it in an orderly fashion (or kick it under the bed), put it away at the end of the week (or ransack the mess on the floor for it when you need it), keep it in batteries (which, by the way, cost you more in life energy to purchase), etc.

Your Money or Your Life encourages us to think of each of our possessions as fitting into one of four categories:

- **Survival.** When you were a baby, you needed to eat, drink and sleep. You needed to be cuddled and kept warm. Your parents met those needs for you until you were old enough to dress, feed, and entertain yourself. Having your needs met made you comfortable and happy. "Stuff" began to equal contentment.
- **Comforts.** You wanted to play, so your parents bought you toys. Your parents value the skill of reading, so they bought books to read to you, and later, books for you to read yourself. You needed warmer clothes –

more than a diaper and t-shirt – so your parents bought them for you. Maybe they gave you an allowance so you could learn to handle money. The “stuff = contentment” equation became more entrenched.

- **Luxuries.** These are the things that you don’t necessarily need for survival or comfort, but they make you happy: the TV/VCR, a computer, a video game player, a shelf full of *Goosebumps* books, a collection of Beanie Babies, a bigger allowance. Stuff still equals contentment, but it’s getting harder at this level to stay content for long.
- **Clutter.** This is the point where your stuff starts to own you. You’re not happy with a few Beanie Babies – you need each size of each one, from Happy Meal to Beanie Buddy. You’re tired of *Goosebumps* books so you begin collecting another series, and pretty soon you have a shelf full of those books. Your own TV in your room. Your own computer. Your own phone. Board games and video games, puzzles and sports equipment. Craft projects you never finished. The t-shirt drawer that won’t shut. Eighty-seven kajillion Happy Meal toys, all of which you have outgrown, half of which were merchandise tie-ins to movies you were too young to see when you got them. And *still* you want more! Because, you see, by now the “stuff = contentment” equation is burned into your brain – even though your stuff does nothing but make you crabby when it’s time to clean your room.

***Enough* is at the top of the Fulfillment Curve** (see below). It’s at the place where you have everything you need for survival and for comfort, and even a few luxuries – but where you have nothing that simply complicates your life.

Everybody’s *enough* is in a different place. It’s up to you to discover your own *enough*.

Class Exercise: The Fulfillment Curve

Spend some time, either with the whole class or in smaller groups, thinking of your possessions and categorizing them as survival, comfort, luxury or clutter. Write your lists on the board. Don't criticize classmates who suggest categories you don't agree with. Remember, everybody's *enough* is different. One person's "comfort" is another person's "clutter".

A Word about Gazingus Pins

The phenomenon of the gazingus pin is explained nowhere better than on pp. 27-28 of *Your Money or Your Life*:

> A gazingus pin is any item that you just can't pass by without buying. Everybody has them. They run the gamut from pocket calculators and tiny screwdrivers to pens and chocolate kisses. So there you are in the mall…. You come to the gazingus-pin section and your mind starts cranking out gazingus-pin thoughts: Oh, there's a pink one…I don't have a pink one…Oh, that one runs on solar cells…That would be handy…My, a waterproof one…If I don't use it I can always give it away…. Before you know it, an alien arm (attached to your body) has reached out and picked up the gazingus pin, and off you go to the checkout, still functioning like a wind-up zombie. You arrive home with your purchase, put it in the gazingus-pin drawer (along with the five or ten others) and forget about gazingus pins until your next trip to the mall, at which point you come to the gazingus-pin section and….

Mind you, this is from a book written for *adults*. Kids don't have a lock on the gazingus-pin franchise, no matter what your parents may have told you.

Why is it so hard for everybody – kids *and* adults – to keep from overshooting the top of the Fulfillment Curve?

Peer Pressure

You may have heard of this.

Just as your peers influence your decisions about whether to do your homework or avoid taking drugs or call a certain person you are interested in, they influence your buying decisions. Do the kids at your school wear tight jeans or flares? Sweaters or sweatshirts? What types of school supplies are cool? What types of shoes? Is there anything you've recently seen in a store that would get you laughed out of school if you brought it in?

Adults cave in to peer pressure when making buying decisions, too. You can see it in the cars they drive, the houses they buy, the clothing they wear – if one person in their social group, say, remodels their kitchen, pretty soon everybody's talking about how much nicer their own kitchens would be if only….

It's very, very difficult to fight peer pressure, especially during the middle school years, when all you want to do is fit in with the crowd. It takes courage to go your own way, to make your own decisions about how you spend your life energy. But making your own decisions, and taking responsibility for the results, is the first step on the road to adulthood.

Who knows? You could start a trend. There's a story of one kid who fixed his sneakers with silver duct tape; his friends all thought the tape looked cool and decorated their shoes the same way!

Class Discussion: Peers as Purchasing Advisors

Take a few minutes to go around the group and talk about one recent buying decision you made that was influenced, either directly or indirectly, by your friends (or the kids you wished would be your friends). Then talk about some ways that adults do this, too.

Kids don't just buy stuff at the mall, of course -- they also use it as a place to hang out with friends. Spend a few minutes talking in class about what you do when you meet friends at the mall. If you didn't meet there, where else could you meet? Would it help you to spend less if you and your friends didn't hang out near a bunch of stores?

Kids as Marketing Targets

There's another reason why you just can't seem to stop buying those gazingus pins. It's called marketing.

Just in the past couple of years, our opportunities to be exposed to advertising have exploded. One marketing expert has admitted that the industry expects the average American – somebody who watches four hours of TV per day, spends some time on the Internet, etc. – to be exposed to 5,000 advertisements in a single day.

Not all of these are blatant advertisements. Companies pay big money to put their brand-name products in the hands of stars of movies and TV shows. These are called "product placements." This doesn't even count the TV shows and movies that were developed specifically as half-hour-long ads for a particular toy or video game.

These ads are aimed at *you* – because teenagers are a lucrative market. In 1997, U.S. teenagers spent $84 billion on goods and services. In 2000, that amount was expected to increase to $153 billion. The *Wall Street Journal* reports that everything from makeup manufacturers and magazine publishers to home builders and investment firms are jockeying for marketing position, trying to figure out what teens want and how best to sell it to them.

Few of these marketers have your best interest at heart. The Federal Trade Commission – the people who made RJR-Nabisco stop using Joe Camel to market cigarettes to kids – released a report in September 2000 indicating that the entertainment industry routinely and deliberately ignores its own ratings system when marketing to young people: 80% of R-rated movies and 70% of video games with mature ratings are marketed to kids under the age of 17, and few retailers will stop kids younger than 17 from buying music with explicit lyrics or violent video games.

Daphne White, the executive director of the Lion and Lamb Project, wrote in the *Washington Post* about the marketing of violent video games:

> Marketers have a shorthand expression for the fast-forward nature of modern childhood: KAGOY, as in "kids are getting older younger." In a KAGOY world, no child is too tiny to be targeted: I've heard marketers talk about aiming products at children beginning at "age zero." By the age of 6 – according to Kidscreen (a trade publication), as well as many toy marketers – children begin moving away from action figures and into hand-held electronic games such as Game Boy. By the time they are 8 or 10, the kids consider themselves ready for games rated Teen – supposedly aimed at ages 13 and older. And 12-year-olds get into Mature-rated computer games, the forbidden fruit that has been advertised to them since kindergarten.

These are adults who have agreed in advance that some of their material isn't suitable for you to see or hear – and they're trying to get you to buy it anyway! These smiling hucksters with their ultra-cool gazingus-pin extra-fast-action watch-his-head-fly-off-his-neck-with-maximum-gore products *only want your money.*

Remember what we said earlier: Your money is really your life energy. Do you *really* want to hand your life energy over to somebody who cheerfully admits that he's trying to sell you something that's *bad for you*?

The Taxing of Our Environment

It's not just your room that suffers when you overshoot *enough*. The manufacture of more stuff also creates more waste – waste that goes into our already-overtaxed landfills and dirties our air and water.

Think about this: There may be only one calorie *in* a can of diet soda, but it takes 2,200 calories of energy to *produce* that can of diet soda.

Raising livestock for food is terribly inefficient. Livestock raised in the United States eat 60% of our nation's corn harvest – or 25% of the world's corn harvest. It takes 16 lbs. of grain to produce one pound of beef.

Production of a single computer chip creates waste that weighs as much as 4,500 times the weight of the chip itself.

Everything – every *thing* – you buy has to be extracted, refined, manufactured, packaged, and transported several times, creating pollution each step of the way. This affects the people and animals who live near the production facilities, and that in turn affects your own air, soil and water.

Since 1940, Americans alone have used up as large a share of the Earth's mineral resources as all previous humans put together.

The Iroquois Indians believe that we must preserve the land we have been given so that it will still be available to the seventh generation that comes after us – just as generations before us were answerable to the seventh generation after them. *You* are a seventh generation; you have benefited from the Iroquois' stewardship. There will also be a seventh generation after *you*. Are you keeping them in mind, as you live each day?

To be good world citizens, people who live in wealthy nations must learn to live more lightly on the land. One way to start is to buy only *enough*.

Assignment:

1. Continue keeping track of every cent.

2. Reading: pp. 23-29, The Fulfillment Curve

3. TV ad survey: Watch an hour of television and count the number of ads. Include any product placements during the show. Be on the lookout for name-brand products on tables, company or athletic team logos on clothing or bags, etc. If the show you pick is based on a video game, count each character and each reference to a place or thing in the show

as a product placement. Note any emotional triggers (I've gotta have this to be popular, etc). It might be helpful for you to videotape the show(s) you watch, so you can be sure to catch everything. Write down your results and bring them to class next week.

Or

Collect all of the trash you generate this week – not bodily waste, but any other waste that you would normally put in the trash or the recycling bin. Keep it in a backpack (wet trash should go in a sealed bag inside the backpack) and wear that backpack all day, every day, except when you're sleeping. Bring the backpack to class next week.

Session III

In which you will learn how to calculate your net worth, and why anyone should care

Class Check-in/Evaluation:

How did your expense tracking go? Did you run into any new wrinkles? Is it hard to remember to write everything down, or is it getting easier?

Did you notice anything new this week about your spending patterns?

If you did the TV ad survey, share the results of your work with the class. Were you surprised at the number of ads you found? At the forms that some of the ads were in?

If you kept your trash in a backpack, pass your backpack around the room. Were you surprised at the amount of trash you collected, or at how quickly it increased? Did you find yourself making different decisions about the things you consumed? Why?

Your Net Worth -- Who Knew You Had One?

Net worth is the dollar value of all your possessions, from your savings account to your Happy Meal Toys, minus any money that you owe anyone else.

Class Exercise: How Much Have You Earned?

Chances are that you've earned more than you think.

Let's think about the last six months of the current year. Do you get an allowance? How much is it? Write the answer here: ___________

How often do you receive your allowance? If you receive it once a week, multiply the number above by 26. If you get it twice a month, multiply by 12. If you get it every other week, multiply by 13. If you get it once a month, multiply by 6. Write your answer in this blank. (If you receive an allowance only sporadically, try to estimate.) ___________

Do you get paid for doing chores around the house? Estimate the amount you have earned for these chores and add it to the number in the previous paragraph: _______________

What about outside employment? Babysitting, raking leaves, walking the neighbor's dog? Estimate the amount you've earned and add it to the number in the previous paragraph: ________________

Now – how often do you pester your parents for stuff when you're at the store? How often do they give in? Estimate how much per month you get out of the folks this way and multiply it by 6, then add it to the previous number:

____

Surprised? This is how much money you have received, one way or another, over the past six months. Where did it all go?

What Have You Got to Show For It?

This goes back to the budget worksheet we did on the first day. Some of your money probably went to fixed expenses like lunch money, some to variable expenses, maybe some went to savings, and a lot of it went to buy stuff like a toy. So if you're looking for all that cash that flowed through your fingers over the past six months, look around your room.

For a true net worth, you would add together the value of your *liquid assets* (such as cash, savings bonds, and other investments) and the value of your *fixed assets* – in other words, your stuff. The only way to place a monetary value on your stuff is to *take inventory*. That means actually counting every t-shirt in the drawer, every CD by the boombox, every Hot Wheels car and Barbie shoe in the back of the closet, every book on the bookshelf. It's hard work. Retail stores take inventory on a regular basis. Often, they hire an outside firm that sends in its own employees to count the number of jars of baby food, etc., because it's just too time-consuming for the regular store employees to do it.

When you take inventory, you must estimate the value of your stuff at today's value. Let's say you bought a Game Boy for $70 in 1995 (you know, back when all they made were black-and-white Game Boys), but today you couldn't get 50 cents for it. When you write down the value of your Game Boy, you have to write down 50 cents. Oh, sure, maybe you could go on eBay and find somebody who collects black-and-white Game Boys, and maybe you could get $50 out of him. But this isn't an exercise about what you could make if you sold your stuff on eBay. Think yard sale prices, not online auction prices.

By the way, this is exactly how your parents came up with a value for your family's possessions when they bought insurance for your home – they figured the replacement value of everything. It's possible that the insurance salesperson helped them fudge a little bit on the clothing and furnishings, offering them a ballpark estimate that your parents gratefully accepted rather than taking the time to count *everything in the house*. (The insurance salesperson, after all, wanted to get home and eat dinner that night.)

Why Are We Doing This?

Net worth is an important number for businesses to know. It gives them a quick snapshot of how healthy the company is. This, in turn, may draw people to invest in the company by buying stock, which provides money for the company's further growth.

It's also a good number for adults to know – it gives them an indication of whether they're in debt and by how much, and whether they have any excess stuff lying around that they could liquidate, or sell, in order to pay off those debts or simplify their lives.

Your net worth is also an important number for *you* to know. Now you have a handle on why those marketers are after your money. It's more than you thought, isn't it?

Knowledge is power. Knowing how much you have to work with is empowering. Now it's your responsibility to work wisely with what you have.

Assignment:

1. Read pp. 30-37.

2. Continue keeping track of every cent.

3. Inventory your possessions in three of the categories in the chart on the following page. For each classification of item you select to inventory, indicate how many of those items fit in each of the categories. For example, if you inventory your stuffed animals, your favorite Pooky bear would go under Comfort, the ten others that you used to play with regularly would go under Luxury, and the rest you may decide to put under Clutter because all they do is take up space. Then think about the items in your Clutter column: What could you do with these items that would simplify your life and improve someone else's life?

Item	Survival	Comfort	Luxury	Clutter
T-shirts				
Jewelry				
Athletic equipment				
Craft kits				
Puzzles				
Games				
Dolls/Action figures				
Miniature cars (like Hot Wheels)				
Videos/DVDs				
CDs				
Stuffed animals (excluding Beanie Babies)				
Beanie Babies				
Kids' meal toys				
Trading cards				
Electronic games (computer games, Game Boy, hand-held games like Tamagotchi, etc.)				
Magazines				
Books				

What I could do with the items in my Clutter column:

Session IV

In which you will learn that Saving is Good and Credit is Bad

Class Check-in/Evaluation:

How are you doing on keeping track of every cent?

Have you stopped yourself on the verge of buying something this week, and asked yourself whether you *really need* it?

Were you surprised at the result of your mini-inventory? What solutions did you come up with for your Clutter? Share them with the class.

Credit is Bad

It won't be long before special mail begins coming to your house, addressed to you: credit card offers. The *Washington Post* says 7 percent of high school kids in the United States in 1999 had a major credit card.

Those little cards are fun to use. And the money's free -- right?

Nope.

A credit card is a loan. When you buy something with a credit card, the bank loans you the money to make your purchase. The store gets the money from the bank right away. The bank expects *you* to pay it back -- with **interest**. The interest rate on your card is what the bank charges you for the privilege of using its money to get stuff. It's a percentage of the money you borrowed with the card.

Some credit cards start with pretty low interest rates -- even as low as 0%. But don't expect the good times to last. That low, low rate goes up quickly, and without a reminder from the bank, to as high as 23% per year.

As you might expect, if the bank is making 23% interest from you, it's in no hurry for you to pay off your balance. So it only charges you a **minimum payment** each month, usually 2% of the balance on the card. Let's say you charged $500.00 at 21% annual interest. If you only made minimum payments, it would take you 10 years to pay off that debt – and it would cost you another $700.00 in interest!

Many card issuers also charge you an annual fee, just for the privilege of carrying their card around with you.

Credit cards are convenient, but they are NOT CHEAP. In fact, they can be dangerous. Because they're so easy to use, you can find yourself spending a lot more than your monthly income -- and you may not realize it until you've dug yourself a deep, deep hole of debt, in which you can't even make the minimum payments every month.

You might think that using a credit card makes you look more mature. That's the same hook that cigarette manufacturers have used for years to get people to start smoking. With both hooks, the results are pretty much the same: If you start smoking, you end up enslaved to tobacco; if you get hooked on using a credit card, you can end up enslaved to debt.

The best kind of card is one with no annual fee and a low interest rate. The best way to use a credit card is to pay your balance in full every month.

Better yet, forget about using credit cards. Instead, save your money until you have enough to pay for the things you want with cash.

Bankruptcy – the Very Last Resort

When people are in such dire financial circumstances that they could lose their homes and cars in order to pay their creditors, the federal government offers them a way out. It's called **filing for bankruptcy**.

The number of personal (as opposed to business) bankruptcies is beginning to level off, but it's still at an all-time high. In 1999, 1.4 million personal bankruptcy petitions were filed in the United States, continuing an upward trend that began in the 1980s. That means 1.4 million Americans were so far in debt in 1999 that their only way out was to ask the government to protect them from their creditors.

Let's look at how bankruptcy works.

The federal government gives individuals two choices: You can file under either Chapter 7 or Chapter 13 of the federal Bankruptcy Code. In either case, you file a **petition** -- a request -- with the court listing all of your assets and all of the people to whom you owe money. Once these papers are filed, they are a matter of public record. That means that anybody can go down to the federal bankruptcy court clerk's office and look at them.

Next, the court will set a hearing date for your case. A judge will preside at the hearing. This is also open to the public. Some of your creditors may send representatives to the hearing to argue why they should not be forced to **discharge**, or write off, your debt to them. The judge will hear your side of the story, too, and then decide whether to grant your petition.

A Chapter 7 filing is a **liquidation**. Other than some exempt assets, like your home, your car, and some of your household goods, all of your belongings will be **liquidated**, or sold, and the money from their sale will be distributed to your creditors. An **asset** is cash, or anything you own that you can sell to get cash. The good news is that the creditors have to agree to be satisfied with whatever they get out of your liquidated assets. If you owe Visa $5,000, and Visa's share of your liquidated assets is only $2,000, the Visa people cannot come after you later for the other $3,000.

A Chapter 13 filing has been called a **rehabilitation** filing. You have to come up with a repayment plan. You have three years to repay the money you owe. If you don't make the payments, or if you don't pay off all your debts in three years, the court may convert your case to a Chapter 7 filing and sell your belongings.

In either case, there are some debts that the government will not let you out of. These include child support and alimony payments, school loans, and tax payments.

It's not over when your bankruptcy is discharged. Your credit report will reflect your bankruptcy for as long as ten years. Future potential creditors will see it when they pull your credit report to decide whether to loan you money. You may still get the money, but it will be at a much higher interest rate than you would have received otherwise (because the lender is taking a bigger risk in lending to you than it would to someone who's never filed for bankruptcy).

It's not just potential creditors who look at your credit report. A potential employer may review it, too; you may lose out on a job you really want because of your credit record.

Bankruptcy can be a blessing for some people, but it truly is a last resort. The smartest thing you can do to protect your credit rating – and yourself – is to keep yourself out of a situation in which filing for bankruptcy seems like a good idea.

Saving is Good; or, the Magic of Compound Interest

Let's use our example from the Budget Worksheet from Session I and say that you get $50.00 per month in allowance. If you could keep from spending 10% -- or $5.00 -- of your monthly allowance, and invest that money every month without fail, here is what you could have -- courtesy of the Magic of Compound Interest:

	1%	2%	5%	6%	7%	10%	Total invested
Year 1	$60.28	$60.55	$61.39	$61.68	$61.96	$62.83	$60.00
Year 2	$121.16	$122.33	$125.93	$127.16	$128.41	$132.23	$120.00
Year 3	$182.65	$185.35	$193.77	$196.68	$199.65	$208.91	$180.00
Year 4	$244.76	$249.64	$265.07	$270.49	$276.05	$293.61	$240.00
Year 5	$307.49	$315.24	$340.03	$348.85	$357.96	$387.18	$300.00
Year 10	$630.75	$663.60	$776.41	$819.40	$865.42	$1,024.22	$600.00
Year 20	$1,327.80	$1,473.97	$2,055.15	$2,310.20	$2,604.62	$3,796.82	$1,200.00

(At this writing, you're likely to get about 1% on an interest-bearing checking account; 2% on a savings account; 5% on a one-year certificate of deposit; 6% on a money market account from an Internet bank; 7% on a certificate of deposit from an Internet bank; and 10% on average, historically, from investing in the stock market. Check the Investment Glossary at the back of this Study Guide for explanations of each type of account.)

Now, it's highly unlikely that you will score this kind of money, for two reasons:

1. Life happens. There will be times when you just can't afford to set aside $5.00 per month -- in fact, you may need to take money *out* of your account to cover an unexpected expense.
2. Uncle Sam will want a piece of the action. Eventually you will have to pay **income tax** of as much as 40% on the money your investments make for you. There are ways to **defer**, or put off, paying income tax. We'll talk about them in Session VI.

Here is a quick way to figure out how quickly your investment will double. It's called the "Rule of 72": Divide your interest rate into 72 to find the number of years it will take for your investment to double. So $2,000 invested at 6% will be $4,000 in 12 years. Invested at 9%, it will be $4,000 in 8 years.

Assignment:

1. Keep track of every cent.

2. Ask your parents to save all of the credit card offers they receive in the mail this week. (If you receive no mail from credit card companies, go to www.bankrate.com and pick two credit card websites to research.) Read each offer carefully and answer the following questions for each:

    a. What is the introductory interest rate?
    b. Does the interest rate increase? If so, how many months does the introductory rate last? What is the interest rate when the introductory rate ends?

c. Is there an annual fee?
d. Is there a grace period for new purchases? If so, how many days is it?
e. Is there a grace period for cash advances? If so, how many days is it?
f. If the card offers any special privileges or other deals (frequent-flyer miles, rebates, traveler's checks, etc.), evaluate how likely it is that you, or a member of your family, would use them.

Session V

In which you will finally find out what to do with that little notebook full of numbers

Class Check-in/Evaluation:

How did your expense tracking go? Is it becoming second nature to you yet to write down all of the money you spend?

Discuss in class the credit card data you gathered. Are some cards a better deal than others? If you plan never to carry a balance, you're better off with a no-fee card, no matter what the interest rate is. If you carry a balance, you should look for a card with a low rate. Did you find a card that seems to be the best of both – a low interest rate *and* no fee?

The Monthly Tabulation

At this point, you should have four weeks worth of data on your income and expenses. Now it's time to make sense of it.

You have probably already noticed that your spending falls into broad categories. For instance, cafeteria lunches, junk food binges, and meals out with your pals all fall into the broad category of Food. Clothing – purchase, laundry and dry cleaning, repairs, etc. – are another broad category. Recreation is probably the biggest broad category for people your age, and may well be where the bulk of your spending goes.

For your homework this week, you are going to categorize all of your expenses. Take a look at the worksheet on p. 23. (Other examples are on pp. 94-96 of *Your Money or Your Life.*) We have listed some categories for you, but if you don't like ours, or if you think we forgot one, use your own.

Your income and expense figures will go in the "Total Dollars" column. If you were able to compute your real hourly wage in Session I, you can use that figure to fill in the "Hours of Life Energy" column. Divide your real hourly wage into the figures in the "Total Dollars" column; the result is the number of hours you worked in order to pay for the items in that category this month. (If you couldn't compute your real hourly wage, you can leave this column blank.)

Class Exercise – Monthly Tabulation

Fred Middleschooler (who, by the way, thought the duct-tape idea in Session II was so cool that he duct-taped his favorite pair of sneakers together) has been keeping track of his expenses faithfully for the past four weeks. Here's what he spent:
School lunches: $36.00
Eating out with friends: $15.00
Admission to the school dance: $5.00
School yearbook: $10.00

New gym shirt to replace the one he lost: $5.00
Trading cards: $40.00

Fred doesn't receive an allowance because he earns $100.00 per month from his paper route. In addition, his Aunt Edna finally coughed up $20.00 for his birthday, which was two months ago.

With your class, fill out a Monthly Tabulation on the board for Fred.

The Three Questions

The last three columns on the Monthly Tabulation form are the heart of the program in *Your Money or Your Life*. Once you have filled in the "Total Dollars" and "Hours of Life Energy" columns, take a look at your figures for each category and ask yourself these three questions:

1. **Did I receive fulfillment, satisfaction and value in proportion to the money/life energy spent?**
2. **Is this expenditure of money/life energy in alignment with my values and life purpose?**
3. **Would I spend my money/life energy in this way again?**

As you answer each question, put a + (or an up arrow) in the corresponding box if you answered, "yes, and in fact, I'd like to spend more on this", and a – (or a down arrow) in the box if you answered, "no, I'd like to spend less on this". If you think that your expenditure in that category doesn't need any tweaking, put a 0.

Your Money or Your Life explains why these questions are so important on pp. 112-128. You'll notice that in the book, Question #3 is different: "How might this expenditure change if I didn't have to work for a living?" If you have a job, and you would prefer to answer this question rather than the Question #3 listed above, go ahead.

You don't have to share your answers to these questions with anyone.   In fact, *don't* compare answers with your friends. This step only works if you answer the questions on your own.

The Wall Chart

You will find a piece of graph paper in the back of this Study Guide. Once you have your Total Income and Total Expenses, plot them on the graph paper. Use the sample Wall Chart on p. 162 of *Your Money or Your Life* as a pattern. Use different colors of ink for each dot – income and expenses. It doesn't really matter which color you use, but traditionally, red is used for expenses and black is used for income.

This month, your graph will be just two dots. But if you continue keeping track of your expenses and income as you did this month, you can keep plotting your totals on your chart – and, as on p. 162 of *Your Money or Your Life*, connecting the dots to make a line graph. Eventually, your Wall Chart may well show your expense line so much lower than your income line that you won't be able to stop yourself from bragging about it. Be proud! Hang your Wall Chart on your bedroom wall. Better yet, hang it on the fridge. Get your parents to do their own Wall Chart so you can compete against them!

Assignment:

1. Read pp. 82-96; pp. 112-128; and pp. 146-148. (You aren't required to complete the Purpose-in-Life Test on pp. 125-126, but you might want to do it for fun. It doesn't take very long.)

2. Complete the Monthly Tabulation on p. 23.

3. Create your Wall Chart using the graph paper at the back of this book. Enter your Total Income and Total Expense figures from your Monthly Tabulation onto the chart.

4. Consider continuing to keep track of every cent, at least for another month.

Monthly Tabulation for ________________
(month & year)

Category	Subcategory	Total Dollars	Hours of Life Energy	#1	#2	#3
Income:						
	Allowance					
	Other money from family					
	Income from working					
	Gifts					
	Total Income					
Expenses:						
Food	Cafeteria lunches					
	Snacks					
	Meals out					
Clothing	For school					
	For work					
	For special events					
Transportation	Bus/train fare					
	Bike maintenance/repair					
Entertainment	Eating out with friends					
	Movies/videos					
	Recreational shopping					
	Club dues					
	Hobbies					
	Books					
Gifts/Contributions	Church/synagogue					
	Total Expenses					

Session VI

In which you will learn how to become FI
(which is a very cool thing)

Class Check-in/Evaluation:

Did you have any problems in creating either your Monthly Tabulation or your Wall Chart? Many adults use a spreadsheet program for their Monthly Tabulation. Would it have helped you to have a computerto do the math for you?

What did you learn about your spending habits and patterns by using the Three Questions? Did you identify any gazingus pins you hadn't thought of before? Did you find anything that you'd like to spend more on? That you'd like to spend less on?

Did you decide to continue to keep track of every cent?

What the Heck is FI?

To be accurate, the question is: "What the heck are FI1, FI2 and FI3?" *Your Money or Your Life* defines these terms on pp. 259-260:

Financial Intelligence (FI1) – Knowing how much you have, how much you spend, and how much of your life energy you're investing in each aspect of your chosen lifestyle.

Financial Integrity (FI2) – Your handling of money is integrated with your values.

Financial Independence (FI3) – When you no longer need to work for money.

The good news is that by completing Sessions I through V of this course, you're well on your way to FI1 and FI2. Getting to FI3 takes a little longer.

Remember the gap between the income line and the expense line on the sample Wall Chart on p. 162? The gap is labeled "Savings". You get to FI3 by taking that money – the difference between what you earn and what you spend each month – and investing it, until the amount your savings earn each month is the same as the amount of your monthly expenses. When your Investment Income line crosses your Expense line, you've reached the **Crossover Point**. You no longer have to work for money – you can live off of the interest generated by your investments. You're *financially independent*.

Of course, the lower your monthly expenses are, the sooner your investment income will match them. That's why it's important to become conscious of what you're spending – and why.

It might help to visualize a bucket. Your income – your life energy – pours into the top. Your expenses are holes in the bottom. Most people have so many holes in their buckets that their life energy drains out as fast as it pours in. But as you track your spending and answer the Three Questions, your awareness about your spending – your Financial Intelligence – helps you to identify your gazingus pins and plug those holes, so that your bucket fills up faster. When the level in the bucket stays constant from month to month without adding any income from working – in other words, when the amount of investment income flowing into the top is the same as the amount going out of the expense holes in the bottom – you're Financially Independent.

Even if you decide that you never want to quit working, being FI is nice. You can be a lot pickier about the jobs you take if you don't need the money. You could work in a field that you truly care about instead of feeling forced to work for the company that pays the most. Your life could be a lot more peaceful and more fulfilling as a result.

Class Exercise: What Would You Do If You Didn't Have to Grow Up and Go to Work for a Living?

Spend a few minutes talking about what you would do with your life if you never had to work for money. Your teacher will list the ideas generated by the group on the board. Don't just think in terms of an endless summer vacation, although sleeping in every day would certainly be on almost everybody's list! Also think about the things you'd like to have more time to do, places you'd like to visit, people and organizations you'd like to help, things you'd like to learn. How would you help make the world a better place?

What is a Cushion, and Why Won't My Banker Offer to Sell Me One?

A **cushion** is an emergency fund. It's a little account, maybe a savings account or certificate of deposit, that contains between three and six months worth of living expenses. It's the "savings for a rainy day" that your grandparents or great-grandparents may talk about. It's what you'll live on if disaster strikes.

You won't see ads for killer interest rates on "cushion accounts" because, frankly, they're too small to show up on a banker's radar. Unless you're Bill Gates, First National Bank isn't going to compete for your cushion account against Second National Bank. We're only talking about a few thousand dollars. The money that the bank would make from loaning out the funds in your teeny-tiny cushion account isn't worth the effort.

But it is *definitely* worth your effort to set one up. Too many people today skip this crucial step – they assume that they can use a credit card for emergencies. But this can be a big mistake. It's too easy to define "emergency" as the end-of-month shoe sale at Nordstrom's – and then, when a *real* emergency happens, when you get laid off or laid up with an illness or injury, your emergency card is already maxed out. Not only do you have no "cushion" available, but the credit card company wants to know when you're going to pay for all those shoes you charged. You remember what happens when there's nothing coming into the top of the bucket and the people under the holes are hollering for a drink, don't you? That's right, bankruptcy – the choice of 1.4 million Americans in 1999.

A New Career Choice

We'll close with this career description offered by a *Your Money or Your Life* reader on the Simple Living Network discussion boards in March 2000. (This is an edited version of this posting; you can see the full text at http://contrib.bdhsw.com/FI/Articles/. Or, for more information on *Your Money or Your* Life and living simply, check out The Simple Living Network Discussion Forums themselves, at www.simpleliving.net.)

Career Title: Lifelong Semi-Retirement

Nature of the Work:

Lifelong semi-retirement is an exciting career especially suited for people with wide interests, a preference for living deliberately, and an uncontrollable passion for learning. It's available to nearly everyone, not just the wealthy.

Semi-retirees work for pay only enough hours to meet their monetary needs. After that, they spend much of their time in non-paid work like strengthening relationships, pursuing hobbies, and performing community service. Semi-retirees feel that not giving ample time to dreams, hobbies, and close friendships until after the traditional retirement age is unwise. Although they make provision for their declining years, they unapologetically enjoy many of the fruits of retirement in the present. Life to them isn't a big meal followed by a big nap, but rather a nibble here, a catnap there.

There is no typical day for a semi-retiree. Some days, they may work for pay for six to eight hours; other days, not at all. They might spend three weeks caring for an aging parent, followed by three months of paid work. They may choose to participate in a project at the local library, volunteer for a community awareness campaign, or raise funds for a non-profit organization. Unattached to one specific full-time career, they are free to pursue a variety of interests, and maintain or develop expertise in several fields. The possibilities are endless.

For instance, a semi-retired young husband and father could run a small handyman business for his primary income. Occasionally he might tutor struggling algebra students. He could also be a soup kitchen volunteer, and perhaps a member of a search and rescue team. Another semi-retiree with specialized engineering skills may earn money through a string of freelance consulting contracts. After a well-paid assignment, she may choose to spend six months as a volunteer consultant in another country. During that stint, she could pursue other interests such as becoming fluent in a foreign language, developing expertise in that country's cultural history, or even taking a cooking course.

Semi-retirees happily exchange a lot of small and immediate pleasures for a few grand ones. Suppose, for instance, that our semi-retired engineer decides to buy a house. She has a flawless credit record, and is pre-approved for a loan large enough to purchase a home in a swanky suburb. Although she can afford this financially, she decides she cannot afford it in terms of her priorities. Consequently, she opts for a considerably smaller and less expensive home. She thus retains the freedom to not have to spend most of her day working for money.

Aptitudes:

Individuals who decidedly prefer experiences over possessions tend to fit well into this career. This is an important point, because happy semi-retirees value their freedom purchased through reduced needs much higher than the pleasures and conveniences purchased through wage work. Semi-retirees generally cast a critical eye on cultural sacred cows. For instance, many think over-specialization in one type of work for pay often damages creativity and needlessly narrows a person's scope. They may become expert in one specialty, only to drop it to pursue another (frequently unrelated) which suits their fancy. Though mainstreamers would call this behavior "career flightiness," in the semi-retirement field, such "jumping around" is a sign of success.

Training & Qualifications:

Trainees often get their basic education by simply embracing life. Along the way, they tend to pick up desirable traits such as a questioning attitude and a discerning eye for the shadow sides of power, money, and prestige.

Young people anticipating a career in semi-retirement should expose themselves to as many of the interesting things and people in the world as possible. They should experience on an intensely personal level the grandeur of art, the excitement of intellectual discovery, the complex beauty of nature, and the magic of great music. People who have such experiences at a young age are more likely to develop eclectic tastes. Once sufficiently "infected", they will have a lifetime worth of itches to scratch.

The only hard-and-fast qualification for a career in semi-retirement is an overwhelming desire (as Thoreau put it) "to live deep and suck out all the marrow of life." But before you do that, you've got to figure out how to live deeply – and just what the marrow of life is. Most people would agree that getting stuck in a time-starved work-and-consume rut doesn't qualify as living deeply. More likely to fit that definition is a life which isn't overwhelmed by pressure to "succeed," "get ahead," or make a name for oneself; a life which gives ample time for reflection.

Semi-retirees do need a skill or two they can perform which will provide them with income. Sometimes they learn these through attending colleges or trade schools. Others find that self-education, or seeking out mentors in fields that interest them, gives them the expertise and confidence they need to offer their skills in exchange for money.

Advancement:

Ongoing self-education is necessary for advancement in this career field. Local libraries are excellent resources for continuing education. In addition, semi-retirees can upgrade their skills or learn new ones through apprenticeships, mentorships, or tutorials.

Earnings:

Earnings are a combination of money, physical and moral support from close friends, a high degree of self-reliance, and an ever-increasing love for simplicity. While the average semi-retiree may have considerably fewer possessions than others in mainstream careers, he or she doesn't need to sacrifice good housing, heat, food, clothes, medical treatment when needed, and other essentials. Semi-retirees learn how to have all of those things and more without spending most of their waking hours working for money to pay for them.

Career Growth Projections:

As our culture increasingly questions the wisdom of using a career-driven template for adulthood, more people will look for alternatives. Ever greater numbers will realize that by living lightly, they can reclaim the option to quit an unpleasant job, or spend less time working for money. These trends will likely open new opportunities for people to enjoy a more healthy balance between making a living and having a life.

Sources of Additional Information:

There are a number of insightful writings on this subject. To get started, try *Walden* by Henry David Thoreau, and the essays "Man the Reformer" and "Self Reliance" by Ralph Waldo Emerson.

Final Note:

While lifelong semi-retirement is a viable career path for some, for many others it may be just a helpful mind-set. In other words, they can take the independent spirit of semi-retirement and use it to relieve the stresses of their current life. Who knows? They may like it so much that somewhere down the line, they actually join the ranks of the semi-retirees!

The Beginning…

As promised, you now know more about money than the average American adult.

So what are you going to do with all of this newfound knowledge? Are you going to soar like an eagle, or continue to spend like a turkey?

You may have heard that domesticated turkeys are so dumb that they will run around with their mouths open when it rains, thereby drowning themselves. We have it on good authority that this is true. During this course, you've learned a little bit about your gazingus pins, and about your values, and about how much you can save if only you begin *today* to put aside a little bit of money every month. You've learned that you *can* get to that endless summer vacation – sooner than the age of 65.

Now that you know all of this, are you going to keep drowning?

We didn't think so.

Congratulations!

Your friends at FI Associates and
The New Road Map Foundation

Investment Glossary

As we saw in Session IV, your savings, when invested, earn interest. There are several types of savings and investment accounts. In *Your Money or Your Life*, Joe Dominguez and Vicki Robin urge their readers to learn about investments on their own. However, it helps to know some of the buzzwords, so we've included a glossary for you here.

A word of caution: People tend to use the words "saving" and "investing" interchangeably. However, you're probably better off thinking in terms of *saving* your cushion in a low-risk account such as a savings account, certificate of deposit, or money market account at your bank, and *investing* anything more than that in longer-term investments, such as government bonds. The money you invest is also known as **capital**.

Types of Bank Accounts

A couple of things to keep in mind:

- When you deposit your money in a bank, the bank doesn't put it in a little drawer with your name on it. Instead, it puts your money in a pot with all its other depositors' money and loans money from the pot to other people. The bank makes money by charging borrowers a higher interest rate than it pays depositors for the use of their money.

- Virtual banks pay much higher interest rates than brick-and-mortar banks do. You can go to www.bankrate.com to compare interest rates from both kinds of banks. (This is a good place to go to compare things like credit card deals, too.)

Checking Accounts

When you open a checking account, the bank takes your money and gives you a book of blank checks, along with a **register** for keeping track of your deposits, checks, debit card purchases, and ATM withdrawals.

Each check that you write is really a promise by your bank that it will pay the amount you specify on the check to the person who presents the check for payment. Your end of the deal is to make sure that you have given the bank enough of your money to cover all of the checks that you write. (If you don't, the bank will usually honor the check, but it will charge you between $25 and $29 for each check that "bounces".)

The person who presents the check for payment must **endorse** it by signing it on the back before the bank will cash the check.

You can take money out of your own checking account either by writing a check to yourself or by using a debit card. You can write a check made out to "Cash", but then anybody who finds the check can cash it; it's better to write it to yourself and not endorse it until you get to the bank.

The bank makes money on your account by charging you a fee every month. You can get a no-fee account by keeping a certain balance (usually a minimum of several hundred dollars) in your account every month. There are other types of no-fee accounts, too -- check at your bank.

Some checking accounts pay interest, but the interest rate is really small, and the minimum balance to avoid a monthly fee is usually several hundred dollars.

Savings Accounts

If you have a bank account, it's probably one of these.

When you open a savings account, you give the bank your money and the bank puts it in a pot with everybody else's money and loans it out to other people (see above). The bank pays you interest each month for the use of your money. You can get your money back from the bank any time, but the bank may charge you a fee if you make too many withdrawals in a month. It may also charge you a fee if your account drops below the minimum balance, although many banks have a kid-friendly account that has no minimum balance and no fee.

Savings accounts pay a slightly better (but not much) interest rate than interest-bearing checking accounts. It's not a great place to make a lot of money, but it's a good place for your cushion.

A Word About Debit Cards

Many checking accounts come with debit cards. They look like credit cards, but they work differently. When you use a debit card to buy something, the bank does not loan you money. Instead, it takes money out of your checking or savings account and pays the store for you. It's just like writing a check. There's no interest rate because there's no loan.

You can also use a debit card to get your money from an ATM, of course. When debit cards were first introduced, this was the only thing that they were good for, so some people still call them **ATM cards**. (By the way, ATM stands for "automated teller machine". So if you call it an "ATM machine", what you're really calling it is an "automated teller machine machine.")

Debit cards do not give out free money! Every time you use your debit card, you have to remember to write the transaction in your checkbook or savings account passbook. Otherwise, you could overdraw your account, causing checks to bounce and costing you big money in fees. Not to mention embarrassment – few things in life are more humiliating than standing in line in a store with your purchases all rung up, and having the clerk tell you that your card, credit or debit, has been denied.

Certificates of Deposit

If you hear a banker talking about CDs, this is probably the kind she means.

When you obtain a CD, you give the bank your money and you promise the bank that you will not withdraw any part of that money for a specified period of time, anywhere from three months to several years. In return, the bank pays you interest at a significantly higher rate than it would if you just put your money in a savings account. The longer you promise that the bank can use your money, the higher your interest rate. If you do withdraw part of your money early, the bank will charge you a big, *big* fee, equal to several months' interest.

Money Market Accounts

The best way to think of a money market account is that it's a savings account that comes with blank checks. The bank will charge you a big fee for writing more than three checks per month. Your minimum deposit for opening the account will be bigger, and your fee for dropping below the minimum balance will be bigger, than for a savings account. But your interest rate is much higher than for a savings account, although not quite as high as for a CD.

Investment Accounts

Once you have your cushion in place, you can begin investing your capital. A couple of things to remember:

- When you buy a bond, you're loaning money to a government or corporation for a specific period of time. In return, the bond issuer promises to pay you back your money at the end of the period, plus interest. You're taking a risk that the issuer won't have the money to pay you back when the bond comes due -- or has gone out of business.

- When you buy stock, you actually become an owner of the company. If the company makes a lot of money, you could make a big return on your investment. If the company goes out of business, you could lose *all* of your money. (There's a reason why Joe Dominguez called Wall Street "the casino.")

- When you own more than one stock or one bond, you have an **investment portfolio.**

U.S. Savings Bonds

You may already own a savings bond -- people sometimes give them as gifts to newborns.

There are two kinds of savings bonds being sold now: Series EE and Series I. (The government also offers Series HH bonds, but you cannot buy one directly – you have to convert, or trade in, a Series EE bond to get one.) If you buy a Series EE, you pay half of the face value of the bond, so that a $100 bond costs you just $50. The government guarantees that you will get at least the face value of the bond if you hold it for 17 years; depending on interest rates and how much longer than 17 years you hold the bond, you could get more. (Savings bonds will keep earning interest for as long as 30 years.) You *have* to hold the bond for at least six months. If you cash it in within five years of buying it, you'll forfeit the most recent three months of interest payments.

If you buy a Series I bond, you pay the full face value (a $100 bond costs you $100), but the interest rate is higher. Also, the interest rate on a Series I bond is tied to the inflation rate – which means that the interest rate on the bond will increase if inflation becomes a problem.

Because savings bonds are issued by the federal government, there is little or no risk that you won't get your money back when the bond matures.

The smallest savings bond you can buy is the $50 Series EE, for $25. These are a good way for you to begin saving now for college or some other big, adult expense.

Visit www.savingsbonds.gov for more information on U.S. Savings Bonds.

Government Bonds

Besides savings bonds, the federal government also issues Treasury bonds, bills and notes. You can buy any one for $1,000. Notes are the shortest term (up to a year); bills are longer term (one to ten years); bonds are the longest term (ten to 30 years). Usually, the longer the term of the bond, the higher the interest rate.

There are two cool things about Treasury securities. One is that you get your interest payments quarterly – unlike the savings bond, which holds all your interest until you cash it in. The other is that you don't have to pay state or local income taxes on the interest you earn.

Like savings bonds, Treasury securities are backed by the federal government, so there's virtually no risk that you won't get your money back.

The Treasury Department sells these securities at auctions several times a year. You can get the auction schedule and more information on federal bonds, including savings bonds, at www.publicdebt.gov.

Chapter 9 of *Your Money or Your Life* discusses 30-year Treasury bonds at some length as an ideal investment for FI3. The authors like T-bonds because they are a safe investment that generates a guaranteed income stream for a long time – exactly what you're looking for, if you plan to live off your investment income. You can read the chapter for more details.

Certain government organizations, like the Federal National Mortgage Association (sometimes called "Fannie Mae") and the Student Loan Marketing Association (sometimes called "Sallie Mae"), sell bonds, as well. You can get more information on these bonds at www.fanniemae.com and www.salliemae.com.

Municipal (city and county) governments often sell bonds, too, to fund things like parks, school buildings, and water treatment plants. You have to buy these bonds through a broker, who will charge you a fee.

Stocks

You might already own some stock – sometimes people give stock as a gift.

The stock market is the Big Kahuna of investing. Stocks have been on a wild ride over the past several years, with investors winning big and losing big – sometimes on the same day! It is possible to become a millionaire overnight. It is also possible to lose all of your money.

So buying stock is not something to do lightly. If you decide that you want to get into the stock market, you should study the company whose stock you'd like to purchase to see whether it's making money, or has the potential to make money, and whether it's doing business in a way that supports your values (for instance, if you're a vegetarian, you probably won't want to buy stock in a chicken farm). You can learn these things by reading a copy of the company's **annual report**, which you can get from the library or by writing the company and requesting one.

The classic advice about investing in stocks is to "buy low, sell high" – buy when the stock is cheapest, and sell when it's most expensive. The question everybody wants an answer to is, how do you know what the highest high or the lowest low is? You can track stock prices by checking the business section of the newspaper every day, and use your judgment about highs and lows. There's a lot of guessing involved (no matter what you may hear about some "expert" with a "system").

If you're really interested in getting into the stock market, you could set up a play portfolio for yourself. Pick several companies that you think you'd like to invest in, set aside play money for shares in each, and then track the prices of your stock for several months and see how much you've "earned" -- or "lost".

If you decide to get into the stock market for real, you can either buy through a **stockbroker**, who will charge you a fee, or you can buy through an Internet company like E-Trade, which has smaller fees.

A word of warning: Joe Dominguez, one of the authors of *Your Money or Your Life*, used to work on Wall Street, and he did not recommend buying stocks. He believed that they are often too risky to be a safe investment.

Mutual Funds

You might not have the time and skill (or luck!) to pick individual companies to invest in. Instead, you can put your money into a mutual fund. This is a whole bunch of investments -- stocks and/or bonds -- managed by one person. There are two options: 1) buy directly from a mutual fund company and 2) buy through a stockbroker. Either way, you will probably pay a fee of some type.

Picking a mutual fund to invest in is as much of an art as is picking individual stocks. Some websites offer comparisons of mutual fund returns, including www.morningstar.com.

Types of Retirement Accounts

People often skip stocks and bonds, and begin investing their capital in retirement accounts, particularly if their employer offers a 401(k). A couple of things to think about:

- You might think it's silly to start putting money away now for your retirement. But if you had put $2,000 into an IRA when you were ten years old, and if it earned 10% per year for you, even if you never put another penny into that IRA, you'd have $378,118.28 when you turn 65!

- The name of the game in retirement investing is **tax deferral**, or putting off paying taxes on your earnings until later. People like this for two reasons: it makes this year's earnings smaller, meaning a smaller tax bite now; and they'll probably be in a lower tax bracket after they retire, so they'll pay less in taxes on the money when they actually spend it.

IRAs

IRA is short for Individual Retirement Account. When you invest in an IRA, you give the broker your money and the broker puts it into an investment of your choosing – often, a mutual fund. The money sits there, making money for you (or not), until you retire. You have to be at least 59 1/2 years old to withdraw any money from your IRA. If you take any out any sooner, you'll have to pay a 10% penalty on top of the taxes.

You can put up to $2,000 of your earnings into an IRA each year.

A newer type of IRA is called a Roth IRA (after the member of Congress who proposed it). You put in money that's already been taxed, but after you retire, everything you withdraw from it – including your earnings – is tax-free. Many of the other rules for regular IRAs also apply to Roth IRAs. The Internal Revenue Service (www.irs.gov) is the place to go to learn all about the rules on IRAs.

401(k) or 403(b)

These are tax-deferred retirement accounts offered by employers to their workers. They are similar to IRAs, except that the amount you can deposit each year is much higher – $10,500 in 1999. Unlike with IRAs, employers may offer to kick in additional money to their employees' accounts. This feature is known as the **employer match**, and is usually a percentage of the employee's salary.

It works like this: Say you make $20,000 a year, and your company will match your contribution to your 401(k), up to four percent of your salary. That means that if you defer four percent of your pay, or $800, into the 401(k), the company will put in an additional $800 for you. The employer match doesn't come out of your paycheck – basically, it's free money from your boss. And it's not counted as income to you (meaning you don't pay taxes on it) until you withdraw it, either at retirement or when you leave the company. Even then, you can roll it over into an IRA and defer the tax payment longer.

The IRS (www.irs.gov) has many rules for these accounts, and the benefits vary from employer to employer. The important thing to remember is that when you hear the words, "employer match", it's free money – don't turn it down!

The Nine Steps

- Step 1: Where You Are
  - How much have you earned?
  - What have you got to show for it?
    - Add up your cash and the cash value of your belongings, and subtract your liabilities, to get your *net worth*
    - Why? This is exactly what businesses do

- Step 2: Being in the Present – Tracking Your Life Energy
  - How much are you trading your life energy for?
  - Keep track of every cent that comes into or goes out of your life

- Step 3: Monthly Tabulation
  - Add up your income for the month
  - Add up your expenditures in each category
  - Subtract expenditures from income

- Step 4: Three Questions that Will Transform Your Life
  - For each line item in your monthly tabulation, ask yourself these three questions:
    - Did I receive fulfillment, satisfaction and value in proportion to the money/life energy spent?
    - Is this expenditure of money/life energy in alignment with my values and life purpose?
    - Would I spend my money/life energy in this way again?

- Step 5: Making Life Energy Visible
  - Wall Chart

- Step 6: Minimize Spending

- Step 7: Maximize Income

- Step 8: Capital and the Crossover Point
  - When your interest payments equal your expenses, you're FI! Celebrate!

- Step 9: Managing Your Finances
  - C<u>ushion</u>: emergency fund
  - <u>Capital</u>: Treasury bonds, etc.
  - <u>Cache</u>: the investment income generated by your capital that's over and above what you need to live on

Your Money or Your Life may refer to: "Your money or your life", a phrase used by highwaymen. Your Money or Your Life (1961 film), a film directed by Jerzy Skolimowski. Your Money or Your Life (1932 film), an Italian film. Your Money or Your Life (1966 film), a French-German comedy film starring Fernandel. Your Money or Your Life: Transforming Your Relationship with Money and Achieving Financial Independence, a book by Joe Dominguez and Vicki Robin about simple living. Money or your life. I got that gangbang mentality, movie after movie. Can't get it outta me, who wanna battle me? Mouth is a Uzi, I thumbtack your ass. To the concrete, treat you like a floozy. This pyroclastic flow that I lay.Â Money or your life. Now I get that money, make that cheddar. Play a double header, we can do better. You can get wetter, blown out your sweater. "Your Money or Life" notes that you only live once, you don't want to spend your life working a job you hate to buy stuff you don't need. But you could also say you only live once, you don't want to live like a pauper and die with $1 million in the bank. How you strike that balance depends on your goals and values. ...more. flag 15 likes Â· Like Â· see review. View 1 comment. Sep 20, 2012 Kc rated it it was amazing Â· review of another edition. I read this book in my early 20s (when I had zero money and zero idea what to do with any if I had it) and it blew my mind.