Preface

As a wife, mother, household manager, and editor, I know what it's like to balance lots of tasks—and to let a few of them slide because I have a wonderful husband who's happy to share them. So writing *Money Smart Women* has been a revelation to me in more ways than one. I am not only the author, but as a woman I'm also the audience. In researching this book, I was my own focus group, asking questions about financial issues that concern me. And the answers I got prompted me to reevaluate my own finances in a number of ways. Here are just a few examples.

First, my husband and I both had wills, but they hadn't been updated since the birth of our third child several years before. After writing the chapter on estate planning, I began bugging my husband to consult a lawyer to see whether we needed to make any changes. He agreed, and we made adjustments in our wills.

Second, when I checked on the status of my own retirement plans with my employer, as part of the routine update recommended by our lawyer, I was shocked to find that I had never brought them up to date to include any of my children as beneficiaries—even though I could have sworn I had done so.

Then my father died, and my sister and I had to help our mother adjust to the psychological bereavement and financial challenges of becoming a widow. In the chapters on caring for parents and adjusting to widowhood, I try to address the questions that all three of us—and my sister in particular, as primary caregiver—faced. In our mother's situation, my sister and I couldn't help seeing ourselves at some point in the future. And that thought prompted us both to decide, independently, to look into long-term-care insurance.

As a bonus, my research on the book also uncovered a tax break that helped my mother save thousands of dollars on medical expenses.

Every woman will pass through most of the stages described in *Money Smart Women.* Many will pass through all of them. My goal is to gather in one place answers to the questions uppermost in your mind—or the minds of women you know—at every stage. In these pages you'll find all the information you need to build financial security—with your spouse or partner or on your own.

When you start your adult life as a single woman, take control of your finances and never give it up. Become a Money Smart woman, and you can complement your spouse's or partner's financial resources and knowledge instead of depending on them. Become a Money Smart woman, and you will not have the rug pulled out from under you if you go through a divorce. You will not be left financially bereft as a widow. You will not go broke taking care of your aging parents—or yourself. Become a Money Smart woman, and you will have enough money to live comfortably in a long and secure retirement.

Questions or Comments? Contact Janet at
moneysmartwomen@kiplinger.com.

Acknowledgments

One of the benefits of being associated with the Kiplinger organization is that as an author you have access not only to a treasure trove of financial information in the pages of *Kiplinger's Personal Finance* magazine and related publications, but also to the resident experts who produce it all. My thanks to all those human resources, who are more valuable than any computer database: Priscilla Brandon, Jane Clark, Kris Davis, Fred Frailey, Mary Beth Franklin, Bob Frick, Steve Goldberg, Pat Esswein, Brian Knestout, Jeff Kosnett, Elizabeth Kountze, Kim Lankford, Kevin McCormally, Courtney McGrath, Ted Miller, Elizabeth Razzi, Ronnie Roha, Manny Schiffres, Catherine Siskos, Mark Solheim, and Melynda Wilcox. A special nod to Cindy Greene for her research assistance.

And thanks to all of the women and men whose true stories make the financial advice in these pages come to life.

ntroduction

Old myths die a slow death, so it shouldn't be surprising that a lot of people—of both sexes—still seem to feel that men have some genetic advantage over women in the skilled management of money. Late-night comics can always get a cheap laugh with stale jokes about women and money. ("I gave my wife an unlimited budget . . . and she exceeded it.")

But evidence to the contrary has always been out there, and it seems to be mounting. In countless households, it's the wife who manages the budget, pays the bills, initiates many financial decisions, shops for financial and consumer products, and makes investments. And if there is a spendthrift in the family, it's just as often the man of the house as the woman.

Sure, guys talk a big game about their investing success—the same way they banter and boast about cars, sports, and hunting (among other things). Men are more prone to active trading than women are—to the men's detriment. Likewise, they are more attracted to speculative investments—also to their detriment. They always have a great story for you about their hot stock that soared, but they fail to mention the ten others that crashed and burned.

Just as men loathe to stop the car and ask directions when they're lost, they often feign greater knowledge of financial affairs than they really have. After all, men are supposed to know all about managing money, so it would look unmanly to ask the advice of others.

Women don't seem to have such hang-ups. They acknowledge what they don't know, they listen carefully, they learn sound techniques, and then they have the patience to consistently apply what they've learned. No wonder a recent study, cited in this book, found that the female customers of a major discount brokerage firm tended to outperform its male investors.

This wonderful new book, by my Kiplinger colleague Janet Bodnar, is for all women—whether never married, married, divorced, or widowed—who want to learn more about the right way to achieve true financial security and make their money grow . . . consistently, strongly, forever.

The concept of being Money Smart is all about empowerment—taking individual responsibility for your own future, whatever that future holds. It means not being dependent on another person's knowledge or judgment that might be inferior to your own.

If you have a partner in life, you will both benefit from your growing financial savvy, enabling the two of you to make better plans together than just one of you could do alone. And if you find yourself on your own—today or years from now—you'll be much better prepared.

Decades ago, women weren't encouraged to learn money management, just as women weren't generally encouraged to pursue careers and earn their own living. There were exceptions, of course. One of the most successful investors of all time was the reclusive, miserly Hetty Green, "The Witch of Wall Street." Female entrepreneurs have long distinguished themselves, ranging from Madame C.J. Walker, an African-American, to the modern marketing genius Mary Kay Ash (both of whom built empires in the cosmetics business).

But women were so rare in professional financial careers that the exceptions were all the more noteworthy—women like Muriel Siebert, of discount brokerage fame, or Julia Montgomery Walsh, a highly successful Washington, DC stockbroker.

Women are often successful communicators and teachers, so it shouldn't be surprising that the first broadly read personal-finance journalist was a woman—syndicated newspaper columnist Sylvia Porter, whose tradition is carried on today by columnists such as *Newsweek's* Jane Bryant Quinn.

Janet Bodnar is one such skilled communicator. As deputy editor of *Kiplinger's Personal Finance* magazine, she has built her career on writing and editing stories about financial subjects. The subjects might be complex, but her writing is always lucid and lively. In recent years, Janet has also emerged as America's leading authority on how to teach children good money-management habits. (You'll find her "Money Smart Kids" column in *Kiplinger's Personal Finance* magazine, as well as on *www.kiplinger.com.*)

Now Janet is applying her lifetime of professional and personal experiences—as a financial journalist, wife, and mother—to helping her fellow adult women on their journeys of financial self-discovery.

The most distinctive aspect of Janet's approach to this book is that it covers every phase of a woman's life. You can find some pretty good guides already published on money management for single women just starting out in life, women who are recently widowed, or women about to go through divorce. This new book covers all of these life stages, including great advice for middle-aged women who need to care for their own elderly parents.

Finally, there's another special group that could also benefit from this book: Men. If, as the evidence suggests, the well-informed woman might have a temperamental edge over men in handling and investing money, perhaps we men should try viewing these issues from a woman's point of view, through Janet Bodnar's knowing eyes. I, for one, have learned a lot from her already.

Knight Kiplinger

Knight Kiplinger
Editor in Chief
The Kiplinger Letter and
Kiplinger's Personal Finance magazine

Chapter 1

Women Really Are Different (But Not How You Think)

A few years ago, when I suggested that *Kiplinger's Personal Finance* magazine do a story on women and money, the editor was reluctant. Money is gender-neutral, he argued. Any story we did on how to invest, how to plan for retirement, or where to get the best return on your money would apply equally to men and women. Furthermore, if we suggested that that was not the case—that women were somehow different—wouldn't that point of view reflect the ultimate in male financial chauvinism?

Not necessarily, I replied. If we suggested that women needed spoon-feeding because they had trouble grasping such oh-so-masculine concepts as making money, we would certainly stand guilty of patronizing our readers. If instead we reflected reality—that women need specific financial advice tailored to the financial decisions they must make—then we would do our readers a service. Just as *Kiplinger's* would not recommend the same investment mix for a 20-something college graduate as for a 60-something retiree, we would not necessarily recommend the same type of retirement planning for a woman with a full-time job as for a stay-at-home mom.

DID YOU KNOW?

In a study by OppenheimerFunds, 65% of the women surveyed said it's their job to pay the household bills, and 54% are responsible for developing or maintaining a budget.

The truth is, I said, that women really are different—but not because they're financial neophytes who are unsophisticated about money and make bad decisions about how to spend and invest it (a stereotype sometimes promoted by self-help gurus who promise to save women from themselves and their own worst instincts). Lack of financial sophistication can, and often does, apply to men as well as women. I think back to the late 1970s, when inflation was out of control and I had occasion to have an elective medical procedure that wasn't covered by insurance. The doctor was going to charge a fee of about $2,000 that he said I could pay off monthly. Would he be willing to give me a discount, I asked, if I paid the entire bill up front? No way, he said smugly; I wasn't going to beat him out of his fee that easily. Okay, I shrugged. But, I wondered, hadn't he ever heard about the time value of money? Given the inflationary environment in the 1970s, it would certainly have been worth his while to get his money immediately, in exchange for a small discount, instead of waiting for it to trickle in over a couple of years, when it would be worth less.

What sets women apart from men, financially speaking, is the different situations they will face during their lives, each with financial implications. They have longer life spans and more checkered work careers, moving in and out of the paid labor force more frequently. When they marry, they often face a special kind of financial dependency that is not always unwelcome but can work to their disadvantage and may be discomfiting. They often bear the main responsibility for rearing children with sound financial values, and they take on the added financial burden of caring for aging family members. Then, after years of having their financial lives intertwined with others' financial lives, they face years on their own following the death of husband and parents and the launching of children.

In the end, my editor did agree to let me write the story for *Kiplinger's*, and that article has served as the blueprint for this book.

In the Kiplinger tradition of presenting useful information in a readable style, it's my intention to cut right to the chase, giving busy women the answers they need to the questions that are on their minds, such as the following:

- **What, if any, is the best way to combine assets in marriage**—and to ensure a fresh start if the marriage ends?
- **In their role as caregivers,** how should women go about finding financial resources to help them?
- **What's the surest route to a secure retirement,** free from the fear of becoming a burden to your children, or, even worse, a bag lady (a concern discussed in Chapter 7)?

Another challenge to writing a book about women and money is that prospective readers are at various stages of their lives: just starting out in their 20s; making and living out commitments to partners and children in their 20s, 30s, and 40s; and possibly starting again in their 50s, 60s, or 70s because of widowhood or divorce. But life isn't static: Either by choice or by chance, at some point most women will go through most of these stages, and change can be costly. The unifying theme of this book is that wherever you are in life, if you are a wise woman you should also be Money Smart.

For women, being Money Smart is a state of mind in which you're confident of your ability to support yourself financially if necessary, and comfortable with handling money—or seeking help if you need it. You can (and should) achieve this kind of financial independence regardless of your marital status. Even a stay-at-home mom can save for her own retirement, make sure that her children are adequately protected by life insurance, and be an equal partner in her family's financial planning. Far from causing tension, your abilities should enhance your relationship with your husband, partner or significant other because each of you has your own strengths and skills that complement the other's. When you're financially independent, you can approach life's twists and turns with assurance, secure in the knowledge that you can handle any curves.

An acquaintance of mine spent years working from home as a freelance writer while her children were young. When her husband was laid off from his job, she returned to work full time to get health insurance coverage for her family and retirement benefits for herself. Soon after, her husband found a new position and she was overjoyed—but she had no plans to give up her job. "I like being captain of my ship," she told me. Whatever your circumstances, you can be captain—or co-captain—of your own ship.

Your Money Personality: A Constant

Before we go further, let me reemphasize an earlier point: There is no money gene that makes men inherently more financially astute than women. While your gender is likely to influence the way you think about money, that situation is primarily a function of life experience and social conditioning. In determining your attitude toward money, your basic personality far overshadows gender, as well as income, age, career, and marital status, according to the findings of the "Women Cents Survey," conducted by the National Center for Women and Retirement Research.

So it's helpful to identify your basic money personality. See whether you recognize yourself in any of the following portraits (or perhaps in some variation thereof):

The Accountant

You keep your checkbook balanced, and one of your greatest thrills is watching your savings account grow. You blanch when your spouse or someone you know spends impulsively on a piece of furniture or a set of golf clubs. You can be a downer to live with, but you'll never be broke. For you, money means security.

The Social Worker

You regard money as filthy lucre, and the quicker you wash your hands of it the better. You are, however, willing to spend it on the people, and causes, you love. You're the one who gets talked into hosting the family dinner every Thanksgiving, and you probably have a "save the something" bumper sticker on your car. For you, money means affection.

The CEO

You lease a BMW, live in a house you can't afford, and have a closet full of designer silk suits. When your kids bring home good report cards, you write them a check. Your motto is, "The one with the most toys (and the nicest clothes) wins." For you, money means success.

The Entertainer

Every Friday afternoon you have a couple of drinks with the gang from the office, and you pick up the tab. On Saturday night you go out to dinner with your friends, and you pick up the tab, or you host brunch on Sunday. You never balance your checkbook and can't be bothered saving receipts. You drive your accountant spouse crazy, but your neighbors and co-workers love you. For you, money means esteem.

There's nothing inherently good or bad, male or female, about these personality types. They're just distinctive. Knowing where you fit in will help you manage your money more effectively by playing to your strengths and correcting any bad habits. If you're in the social worker category, for example, there's no danger you'll become obsessed with making money. But you do need to overcome your aversion to possessing it and learn to use it as a tool that can build financial independence.

The Gender Gap

While there may be no "money" gene, it does appear that in some ways men and women behave differently when it comes to money. The gender gap starts slowly but shows itself early. Even among children as young as four, boys tend to have a higher income than girls—and spend more of it, according to James McNeal, an expert on marketing to children. McNeal is at a loss to explain the difference except to guess that boys are permitted more freedom in their activities than girls, and therefore spend more. "Even in Mom-only households, boys seem to be on a longer rope than girls are," says McNeal.

The disparity continues when kids become teenagers. Overall, teenage boys spend more of their own money ($59 per week) than do teenage girls ($51 per week), whereas teenage girls spend more of their parents' money ($43 per week) than do the boys ($29), according to Teenage Research Unlimited of Northbrook, Illinois. Parents are more likely to pay for their daughters' cell phones and cars—possibly because girls are more adept at convincing them that it's a matter of safety over convenience. And when they enter the work force, girls between the ages of 16 and 19 earn less than boys of the same age, who tend to get higher-paying jobs, according to the Bureau of Labor Statistics.

By the time they're adults, they're showing more fundamental differences by gender. A nationwide survey by OppenheimerFunds showed that whereas women are more likely than men to manage everyday financial matters in most families, men have more confidence than women in their knowledge of investments and are more likely to make investing decisions. And more men than women said they know how a mutual fund works.

Having more confidence, however, doesn't necessarily mean that men are better money managers or investors. In fact, just the opposite appears to be true. When it comes to investing, for instance, women are less likely than men to act on hot tips and more inclined to do their homework, make a decision, and stick with it. As a result, they have a better track record as investors. A study of discount-brokerage investors by researchers at the University of California at Davis showed that during the 1990s, women's portfolios outperformed those of men.

It may be that men are more willing to bluff their way through their investing lives because society expects it, or because they figure that if they lose money they can always earn more. Women, in contrast, may be less willing to take risks with their money because they're less sure of their ability to make up any losses—a reasonable presumption considering that women change jobs more frequently than men, and that the average woman spends 15 percent of her career out of the paid work force caring for children and parents, according to the Women's Institute for a Secure Retirement. At age 40, the average woman in the labor force has accumulated 4.3 years less experience than the average man, reports the Employment Policy Foundation.

Nancy, a New York City financial planner, has vivid memories of the different methods her well-to-do businessman father used to teach her and her brother about money: She got an allowance, but her father doled out money to her brother "like a cash machine. I guess the implication was that I would have to look after myself, but my brother would take over the business and could always count on earning money." As a result, says Nancy, "I learned how to think before spending, but it took my brother a lot longer to learn that lesson."

Oppenheimer did its first gender study in the early 1990s, and since then there's been a leveling of the playing field between men and women. Of the women surveyed recently, nearly half said they feel more knowledgeable about investing than they did five years ago. Still, the vast majority wish they'd learned more about investing while growing up.

GET A FRESH START

You can do wonders to streamline your finances just by getting rid of paperwork you don't need. The following rundown of what to pitch, and when, will get you started.

Bank records. Chuck ATM receipts after your bank statement arrives and you've matched everything up. The same goes for canceled checks and credit card receipts unless you need them for tax purposes to verify charitable contributions, business expenses, or home-improvement records.

Tax records. Keep the returns, but you can probably toss supporting records after 3 years. Most people are safe from being audited after 3 years from the date when the taxes were due, unless they forgot to report a big chunk of their income. If you're self-employed or have supplementary sources of income, hang on to supporting records for 6 years.

Credit card statements. Throw these away as soon as your payment is posted on the next month's bill (again, unless you need them for tax purposes).

Utility receipts. Unless you're deducting your phone or electricity charges as home-office expenses, toss your utility receipts when you pay the bill. The stubs don't prove that you paid the bills, just that you received them.

Mutual fund and brokerage statements. When you sell shares, you will need to know how much you originally paid for the shares and the amount of dividends and capital-gain distributions you have reinvested. Chuck all but your first and most recent transaction reports and prospectuses. Also keep the year-end cumulative report.

Home-improvement records. You can make a tax-free profit of up to $250,000 ($500,000 if you're married) on your house when you sell. So as long as you don't expect to exceed those limits, you won't need to worry about home-improvement expenses and can toss those records. However, if you think you'll live in your house for less than two years or earn a profit of more than $250,000 ($500,000 if you're married) when you sell, hang on to the paperwork because the cost of home improvements can reduce your taxable profits. You'll also need to keep those records if you plan to rent out part of your house or to convert some portion of it into a home office.

Get a Grip: Your Net Worth, Cash Flow, Goals, and Budget

On a level playing field, the opening gambit is the same for both men and women: Gauge your position and keep your eye on the goal. To keep from fumbling your money away, nothing beats a fundamental strategy like keeping a playbook: writing down where the cash comes from, where it's going, and how much is left over. Even if you think you have a good grasp of your financial situation in your head, it's been my experience that putting the picture on paper (or on a computer screen) makes it more concrete and helps you spot previously hidden surprises.

I write extensively on the subject of children's finances, and I always recommend that kids make a list of their wants and needs, and match it against a list of their income and outgo. One summer I helped my 17-year-old son open a checking account for his earnings as a lifeguard, from which he was expected to pay for a senior-year training trip with his swim team. At the end of the summer, he had about $1,300; after shelling out $900 for the trip he had $400 left. Nothing I could have told him about keeping an eye on his spending would have made as great an impression on him as actually seeing the precipitous decline in his bank balance.

In the box on page 9 you'll find a worksheet for calculating your cash flow—where money comes from and where it goes. In the box on page 10 you'll find a worksheet for calculating your net worth—the total of your assets, minus your liabilities. It might take a bit of time to fill in the blanks, but there are some tricks that will make your task easier.

When calculating your cash flow, for example, you need to record your expenses, but you don't need to keep recording them indefinitely. A month or two should be enough to identify the fixed (regular) expenditures you have to make in categories such as housing and utilities, and the discretionary (fun) expenditures you like to make for things such as clothing and travel. If you're gadget-oriented, making your notations on a personal-digital assistant (PDA), or even talking into a recorder, may make the task less of a chore.

And you don't have to track every nickel. Instead, you could make a guess as to what your expenditures are, and then compare your estimates with your credit card bills and bank statements as they come in. If you find, for example, that what you had viewed as harmless shopping excursions to your favorite consignment store are in fact adding up to hundreds of dollars a month, you can focus on cutting back in that area instead of putting yourself in a strait-jacket across the board. One young woman who did this exercise discovered that the biggest leakage in her cash flow came from dry-cleaning bills. She sheepishly confessed that she had a bad habit of dropping her work clothes on the bedroom floor, so she was forever paying to have them pressed. Her financial epiphany: Hang up your clothes. (For other easy ways to stay on top of your spending, see Chapter 2.)

WORKSHEET

Your Cash Flow

	Total for Year	Monthly Average
Income		
Take-home pay	$ ________	$ ________
Dividends, capital gains, interest	________	________
Bonuses	________	________
Other	________	________
Total income	$ ________	$ ________
Expenditures		
Mortgage or rent	$ ________	$ ________
Taxes not withheld from pay	________	________
Food	________	________
Utilities and fuel	________	________
Insurance premiums	________	________
Household maintenance	________	________
Auto (gas, oil, maintenance, repairs)	________	________
Other transportation (bus, parking)	________	________
Loan payments	________	________
Credit cards	________	________
Medical bills not covered by insurance	________	________
Clothing and care	________	________
Savings and investments	________	________
Charity	________	________
Recreation and entertainment	________	________
Miscellaneous	________	________
Total expenditures	$ ________	$ ________
Summary		
Total income	$ ________	$ ________
Minus total expenditures	________	________
Surplus (+) or deficit (–)	$ ________	$ ________

WORKSHEET

Your Net Worth

Assets

Cash in checking accounts	$ ________
Cash in savings accounts	________
Certificates of deposit	________
U.S. savings bonds (current value)	________
Cash value of life insurance	________
Equity in pension, 401(k), and profit-sharing plans	________
Market value of IRAs or Keogh plan	________
Surrender value of annuities	________
Market value of house or apartment	________
Market value of other real estate	________
Market value of securities	
Stocks	________
Bonds	________
Mutual fund shares	________
Other	________
Current value of durable possessions	
Vehicles	________
Household furnishings	________
Household appliances and equipment	________
Furs and jewelry	________
Precious metals	________
Collectibles	________
Recreation and hobby equipment	________
Loans receivable	________
Interest in a business	________
Other assets	________
Total Assets	$ ________

Liabilities

Current bills outstanding	$ ________
Credit card balances	________
Car loans	________
Taxes due	________
Balance due on mortgages	________
Other loans	________
Other liabilities	________
Total Liabilities	$ ________

Summary

Assets	$ ________
Minus Liabilities	- ________
Net Worth	$ ________

Budgets That Work— Honest

Studies show that most people either don't have a budget, or they don't follow it if they do. Notice, if you will, that thus far I've assiduously avoided using the b-word. In fact, the idea of a budget is so off-putting that financial professionals prefer the more euphemistic term "spending plan." So it's worth taking a little time to discuss how to sugar-coat the veggies and set up a plan that works.

No, you don't have to be an obsessive numbers cruncher. You just have to follow three basic rules:

1. **Keep it simple.** A successful budget needs to be compatible with lessons you learned in kindergarten: Stay on task and take one step at a time.
2. **Make it personal.** Rely on software if you wish, but paper and pencil work fine, too.
3. **Be positive.** Don't think of a budget as a straitjacket that limits your spending and takes the joy out of life. Think of it as a way to control small expenses now so that you can buy bigger stuff–and have more fun–in the future.

With that in mind, let's consider some real b . . . , er, spending plans that work for real people.

Pull Out Your Pencil

Andrea prides herself on the wedding present she gave her husband, Michael. Before their marriage, she set up a budget-tracking system that helped her retire a stack of credit-card bills. Every time she paid off a bill, she cut up a credit card. On their wedding day, she presented her husband with a handful of plastic shards. "It was my gift for our financial future together," says Andrea.

Years later, Andrea is still faithful to her budgeting system, a system that involves no special wizardry: She uses a pencil and a bookkeeping notebook to record expenses and target excesses. "I like the paper-and-pencil thing," says Andrea, who always keeps a notebook handy. "It's my way of staying organized."

Andrea and Michael keep a joint checking account, as well as separate accounts to cover their personal expenses and those they've agreed to handle independently (she pays the cable bill, the mortgage, and the car-insurance premium). Andrea uses her notebooks to remind herself when bills are due and to plan for irregular

WORKSHEET

A Monthly Budget Format

Income	YOU	SPOUSE
Take-home pay	$ ________	$ ________
Other (specify)	________	________
Total	$ ________	$ ________

Fixed Expenditures	Projected	Actual	(+) or (-)
Mortgage or rent	$ ________	$ ________	$ ________
Taxes not withheld from pay	________	________	________
	________	________	________
Installment and credit card payments	________	________	________
	________	________	________
	________	________	________
	________	________	________
	________	________	________
Insurance premiums			
Health	________	________	________
Auto	________	________	________
	________	________	________
Life	________	________	________
Home	________	________	________
Other	________	________	________
	________	________	________
Savings/Investments			
Emergency fund	________	________	________
401(k) or other retirement plan	________	________	________
	________	________	________
Investment fund	________	________	________
Vacation fund	________	________	________
Other (specify)	________	________	________
Subtotal	$ ________	$ ________	$ ________

Variable Expenditures	Projected	Actual	(+) or (-)
Groceries, plus food away from home	$ ______	$ ______	$ ______
Fuel and utilities			
Gas or oil	______	______	______
Electricity	______	______	______
Telephone	______	______	______
Water and sewer	______	______	______
Household operation and maintenance	______	______	______
Automobile			
Gas and oil	______	______	______
Maintenance and repairs	______	______	______
Public transportation	______	______	______
Clothing			
You	______	______	______
Spouse	______	______	______
Children	______	______	______
Medical and dental	______	______	______
Personal care			
Spending money	______	______	______
You	______	______	______
Spouse	______	______	______
Children	______	______	______
Recreation, entertainment	______	______	______
Charity	______	______	______
Special expenses (e.g., tuition, alimony)	______	______	______
Miscellaneous	______	______	______
Subtotal	$ ______	$ ______	$ ______
Plus fixed expenditures	$ ______	$ ______	$ ______
Total	$ ______	$ ______	$ ______

WHAT? ME BUDGET?

Author's note: When Elizabeth K. graduated from Northwestern University and began her first full-time job, she applied for her first credit card. There was no doubt in her mind that she would pay it off in full every month, but she didn't live up to her good intentions. By the last week of each month, her checking account was empty and she was using her credit card to get by until the next paycheck. After a year, her credit card balance topped $2,200. She was putting $80 a month into a retirement plan at work, but she had no other savings. So she decided to bite the bullet and set up a budget. Here's the rest of the story, in Lizzie's own words.

I've never liked budgets, and the idea of balancing my checkbook induces an anxiety attack. Although I'm no shopaholic, I love a great pair of heels. And I can always justify hopping on a plane to visit friends.

But it was clear from my credit-card bill that I had to learn to live within my means. At first, I couldn't even face working it out on paper. I simply set a goal of slashing my balance by $1,000 in two months, and limited my weekly spending to $25. But it soon became clear that the "cold turkey" approach was unreasonable. I was coming up short—and resorting to the credit card again.

I finally decided to try a budgeting kit that seemed manageable. It still took three painful hours to break down my expenses and track my spending by using my credit- and debit-card statements.

They showed that I was overspending on travel, clothing, gifts, and dining out. To stanch the outflow, I set conservative monthly maximums for each category. Over the next few months, I spent less than I had allotted for clothing and travel, but more than I had expected on gifts and dining out.

Still, I was spending less than half as much on discretionary purchases compared with the pre-budget days. And I was thrilled to be in control.

Living within my means allowed me to use about $400 of each monthly paycheck to whittle down my credit-card bill. Birthday money and a tax refund made a larger dent in the balance. A gift from my mom kicked off a Roth IRA, to which I contribute.

Then I almost wreaked havoc on six months of careful planning in one day, when I bid on, and won, a couple of vacations at an online-auction travel site. Time for damage control: My dad sold one of the trips on eBay (but I lost $100).

To accommodate a stepped-up schedule of weddings and family gatherings, I beefed up my cash flow. I canceled my gym membership and monthly garage parking at work (I walk to public transit instead), resumed babysitting, and adjusted the withholding on my W-4 to keep more cash. Total increase: $274 a month.

Recently my credit card balance was about $500, mostly because of travel costs. But visits to long-distance friends and relatives are priceless. And it's empowering to have a plan to pay off the debt. Far from feeling limited by my budget, I feel freed by it.

expenses. Starting in the fall, she sets aside money in gift cards for each person on her holiday list. "That's all done by Thanksgiving, so if I have to pay certain bills by the end of the year, my December paycheck isn't cluttered by Christmas obligations."

Andrea takes a fair share of ribbing from her family, but she's unfazed. "It's my check and my expenses," she says. "I organize me."

Stick with Cash

Here's a budgeting technique that today's plastic addicts might not recognize: Use cash. We may live in an electronic era, but stashing money in envelopes according to spending categories is a powerful budgeting tool because you can actually see where the money's going.

Melissa and Terry are big proponents of cash on the barrelhead. The couple's income took a dive when Terry quit his job to become a full-time student, so they needed a foolproof way to keep spending under control. For convenience they use checks or automatic bank transfers to make their mortgage and car payments. But they rely on the green stuff for face-to-face purchases, such as groceries, lunches, and pet supplies. "When we pull up to the pump for gas, we reach into the glove compartment for the 'gas' envelope," says Terry. "It sounds corny, but it's a terrific way to keep from overspending."

The key to budgeting is being realistic about your expenses and putting enough in each envelope to get you through the month. You can decide later where to cut back, if necessary.

If you don't like keeping lots of cash around the house, you could set up an online system with Mvelopes *(www.mvelopes.com)*, a service that links up with your bank and uses envelope icons to apportion your paycheck and keep track of spending. Mvelopes avoids much of the data entry of other personal-finance programs and gives you a visual cue to how much money you have left in each category. When you're over budget, the line item turns red.

Predict Costs

As an urgent-care doctor, Cathleen earns her living dealing with the unexpected. So when it comes to her own finances, she likes to minimize surprises. She predicts her expenses up front, and then makes adjustments, if necessary, to reflect what she really spends.

Cathleen's finances are straightforward: She sets aside money to pay the rent, electric and telephone bills, and for groceries, emergencies, and savings. A surfing fund lets her catch the waves in warm-weather climes such as Costa Rica. She records her actual outlays in a composition book organized by week and periodically compares them with her estimates. "At first, my predictions were wildly different from my actual expenses, but now I'm more accurate," she says.

If a prediction misses the mark, she shifts money from one category to another—an obvious, and appropriate, solution as long as your bottom line stays black. "I see people who look at their budget at the end of the month and say, 'Gee that was rough,'" says one financial planner. "The point is to look at it during the month and make real-time adjustments."

Because Cathleen lives well below her means, she has plenty of wiggle room. She paid cash for a new car, and paid off $30,000 in medical-school loans 14 months after finishing her residency. "I try to save a lot," she says.

Savor Your Rewards

In each of the preceding cases, the individuals profiled marched to the beat of their own drum. But they all ended up where they wanted to be—which brings us to another simple rule for successful budgeting. Nothing motivates you to get your spending under control like having a better place to put your money—in other words, a goal.

Do you want to buy a house? A new sports car? Save for your kids' college education? Retire early to an exotic location? In writing about children's finances, I've learned that trying to teach kids that they should save money simply because it's a good thing to do isn't effective. Kids need a reward for their efforts, whether it's a new video-game system or a school trip. The same is true of adults. While "investing for the future" or "getting control of my money" may be noble goals in themselves, the motivation to save increases when you're working toward something specific.

Once you've captured your dreams on paper, you can sort them in any number of ways—short-term versus long-term, or wants versus needs, for example. Which ones move to the top of your list? (Lists have a way of nagging at you until you get them done. I am a list-maker by temperament, and one year my new year's list looked like this: new car, new house, new baby. By September I had accomplished all three.)

A GAME PLAN FOR SPENDING

Q. I'm a new college grad whose father has always supported me and given me money whenever I needed it. Now I'm panicked about managing my money on my own. How can I learn to parcel out my paycheck?

A. Start with the following spending guidelines, expressed as a percentage of take-home pay:

- Housing, 30%
- Food (at-home and away), 15%
- Utilities and other housing expenditures (including renters insurance), 10%
- Transportation (including car loan), 10%
- Debt repayment (student loans and credit cards), 10%
- Saving, 10%
- Clothing, 5%
- Entertainment, 5%
- Miscellaneous personal expenses, 5%

Note that according to recent Census Bureau figures, renters hand over about 25 percent of their pay to their landlord. So if you're average you'll have an extra 5 percent to put toward other expenses. And these numbers aren't hard and fast. Your first order of business is to keep track of how much you actually spend, and on what. Read this chapter for simple advice on how to do that.

Be as specific as you can. Instead of writing "financial security," you might say, "I want my net worth to be $1 million by the time I'm 50." Or, "I'd like to save enough money to pay cash for a new car in three years." Someone once told me that when we write down what we are passionate about, there seems to be some sort of power that helps us accomplish it.

Once you have outlined the picture, you can fill in the blanks. You can take that trip to Hawaii next year if you cut back on eating at restaurants. You can have a net worth of $1 million by the time you're 50 if you start putting aside 8 percent of your pay in a 401(k) plan when you're 25.

The Power of Knowledge

So now you're ready to build—or rebuild—your financial future. You've gained insight into your cash flow, your net worth, and your goals, and you can create a plan to achieve them. But there's still a missing link. To identify it, let's go back to an earlier point. All the numbers aside, one of the most telling points to come from the Women Cents Survey, mentioned previously, showed that personality is critical to financial decisions. And the personality traits that have the most influence on smart money choices are

- **assertiveness,**
- **openness to change,**
- **optimism,** and
- **a spirit of adventure.**

On the other hand, fear of failure and fear of the unknown are the greatest obstacles to a woman's financial success. My goal in the chapters that follow is to give you the confidence you need to be financially assertive, and the knowledge you need to be independent.

DON'T STOP NOW!

- **Consider** your money personality and how it affects the way that you spend, manage, and invest your money.
- **Streamline** your financial life by getting rid of records and other paper you don't need.
- **Figure out** your current net worth, take a look at your cash flow, and create a budget.
- **Write down** specific financial goals for yourself.
- **Use** this book to help you create an informed confidence that will overcome any fear of failure or fear of the unknown.