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Margin Matters: How to Live on a Simple Budget and Crush Debt Forever

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MARGIN MATTERS

How to Live on a Simple Budget and

Crush  *Forever*

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The rich rule over the poor, and the borrower

is slave to the lender.

Proverbs 22:7

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Foreword

By Mandy Smith

One of the most rewarding aspects of being a writer is having the opportunity to meet so many other writers. Learn of them. Learn about them. Learn from them. In my time as a writer, I have read even more than I have written. It is from these readings that I have learned my craft and shared in the joys and expertise of others, allowing myself to be inspired by their knowledge and creativity. Jason Brown is one of these inspiring writers.

I first met Jason at Kennesaw State University. We had both just begun our pursuit of a Master of Arts degree in Professional Writing, and we both found ourselves learning about two things we had almost no experience in: biography and social media. But we did have experience in other similar matters of adult responsibility. Jason, it turns out, had skill, experience, and passion for getting out of debt and managing money. I had experience, skill, and passion making big decisions as a single woman, such as owning a home. In a later class together, Technical Writing, a how-to project encouraged us both to write about these projects. I began writing *Bachelorette Sanctuary*, and Jason began *Margin Matters*.

It was only after reading early drafts of Jason's book that I realized just how knowledgeable and passionate he was about helping others through the same difficulties he faced early in his adult life. I realized, too, just how useful his advice could be to some of my readers; the single women who read *Bachelorette Sanctuary* may be prepared in many ways to own a home, but they must also be financially prepared. The average salary of a single woman in the

United States between ages 20 and 35 is approximately $30,000. Since the average starter home costs $150,000, *Margin* really does *Matter* for these women.

Regardless of gender, one thing is certain: while you can manage money well without owning a home, you can NOT own a home well without managing money. For this reason, I recommend *Margin Matters* to all my readers. In fact, I recommend it to anyone who is crippled by debt or has ambitions of improving their financial freedom.

When you meet Jason in person, he talks to you immediately as if you are a friend. This same amazing quality is found in *Margin Matters*. Jason tells you truths about your financial situation just like a close friend would, and he provides practical examples of how to better your situation. With one degree in communication, another in writing, and experience as a statistician, it's no wonder Jason is a master of explaining exactly what you should do in a way that is easy for anyone to put into practice. Once you read *Margin Matters*, you will feel as though you have a personal friend in the field of numbers and money management.

Through Jason's carefully designed steps, you will be guided through the process of digging yourself out of debt and creating the financial freedom to make large life decisions like owning a home, taking vacations, or simply paying bills with no fear. You can learn how to pay off credit cards, student loans, and other kinds of debt through a few easy-to understand tricks and a commitment to using them. In this book, Jason describes his own personal experiences about how he climbed out of a pit of ever-increasing debt. His knowledge, which comes from an impeccable combination of research and personal experience, is an irreplaceable tool. You now have wisdom that you can hold in your hand—use it well.

Preface

From an early age I remember my parents modeling fiscal responsibility, perhaps out of the necessity of survival. I grew up in South Dade County, Miami, Florida and considered my family poor. There were times during my childhood when fellow church members brought us food or gave us money because we couldn't afford groceries. I vividly remember a man showing up at our house to turn off our gas due to nonpayment and my mother pleading, with tears running down her face, that he would leave it on. My parents managed to work through many crises like these while trying to shield them from us kids. They were wise with what little they had and never succumbed to the societal pressures of frivolous spending.

My parents and grandparents practiced a concept that is against today's norm. They didn't make purchases unless they had money to pay for it. Shocking, I know. My dad would tell me stories about his father saving money in a soup can to one day be able to pay for the land to build his house on. Both of my grandfathers paid cash for the homes they owned. They spent, saved, and invested wisely. My paternal grandfather lived near a lake in central Florida where most people owned boats. He built a covered shed on his property and charged people to store their cars and boats, inventing public storage before it went mainstream. His modeling of entrepreneurism and the development of passive income shaped me at a young age.

I was 12 when my dad moved our family to Marietta, Georgia. Upon our arrival, it became apparent it was time for me to learn some responsibility. One of our first father-son outings together was to SunTrust Bank. He thought it was important for me to open a checking and savings account. He showed me how to balance a checkbook, which could be considered a lost art today. He also taught me about investing and encouraged me to purchase a few stocks from a company I admired. Since we had just moved to the Atlanta area, the headquarters of Coca-Cola, I decided to purchase some Coke stock. And, of course, we both love their line of beverages. Dad wanted me to purchase a stock from an established, reputable company as a long-term investment and watch it grow. I had enough money to buy a whopping 4 shares—which has split several times over the years. I own a solid 26 shares today.

While these foundations were tremendous models for me to experience, nothing could truly prepare me for life until I was on my own. After landing my first, *real* full-time job at 23, I lived at home and saved as much as I could for a down payment on a house. I gave myself the goal of moving out by the age of 25—because if I lived at home any longer I might've never left. I stuck to my goal and purchased my first (and only) home at 25. That's when I experienced complete autonomy. Still single at the time, I was ignorant of the importance of personal financing. I was the guy who said, "Sure, I have a budget. It's right here in my head." I thought budgeting just meant not spending more than you make. Simple enough, right? But I got into trouble by swiping a credit card for everything I purchased. The next thing I knew I was staring at $13,500 in consumer debt. This led me to discover the power of interest rates. The debt I piled up was not a result of any *unexpected emergencies*, but for life's essentials such as gas, groceries, and clothes (well, buying too many of them). It was foolishness. By educating myself from several resources that I will share in this book, I was able to pay off that debt in 13 months—narrowly missing my goal of one year. This was accomplished while hauling in a mere $23,000 a year from my full-time job.

Several years down the road, when I began dating my future wife, I knew she had some debt. It wasn't until after we began working on combining our finances that I fully realized she was carrying nearly $60,000 in student loan debt. After the initial sticker shock wore off, we got to work and paid off all her debt in just over two years. At the time, we were making a combined income of about $60,000 from our full-time jobs.

Our Debt-Free Journey

- Me (Jason) → $13,500 debt – paid off in 13 months – making $23,000 a year.
- Wife (Amethyst) & I → $60,000 debt – paid off in 2.5 years – making combined $60,000 a year.
- **TOTAL → $73,500 debt – paid off in 3.6 years.**

My goal in writing this book is to empower you with the knowledge and tools to help you avoid what my wife and I went through. Making wise financial decisions will radically change your future and the future of your children.

Introduction

If there's one thing I've learned in life, it's that people don't like being told what to do. This is especially true with it come to finances. Money is a topic that can evoke strong emotions and sensitivities. Have you noticed that people don't like to talk about money—like it's a taboo subject? Most offices frown upon employees sharing their salaries with each other. Why? Are you detecting a theme here? It's difficult to learn about a subject if no one ever talks about it. Let's change that. The fact that you have picked up this book is an enormous step in the right direction.

Your financial health affects almost every area of your life—not just your bank account. It can cause underlying stress and anxiety. In fact, 44% of financially stressed individuals report having migraines. Additionally, finances are routinely cited as a top reason for divorce. But they don't need to be such a source of anxiety and suffering. I'm convinced that with a combination of education and a desire for change, you can greatly alter the path of your future.

In America, debt has become a way of life. And the more money we make, the more debt we incur.

Did You Know?

- Only 20% of Americans are free from any form of debt.
- The average household with credit card debt has balances totaling more than $16,000.
- Roughly 76% of Americans are living paycheck-to-paycheck, with little to no emergency savings.

How do we change this? Your personal financial situation may seem too overwhelming to know where to begin to fix it.

Becoming financially fit is similar to getting physically fit. There is no quick fix—especially if you desire positive results. In both, taking baby steps is paramount to success. When exercising, you might have the goal of losing weight. With your finances, you might want to lose your debt. You don't work out for eight hours a day for a week and expect to lose 30 pounds, nor will you be able to pay off thousands of dollars in debt in a month. It's about developing a mindset and changing your behavior in order to achieve long-term success.

Perhaps this is why many Americans are in such a dire financial situation. There is no quick fix, and those seeking instant gratification will be terribly disappointed. Much like your fitness goals, this is going to take hard work, planning, desire, sacrifice, and willpower to conquer. But when you do, it will be one of the best and most rewarding accomplishments of your life.

Would you like to?

- Increase your financial security
- Make more money to spend on the things you enjoy (without feeling guilty)
- Diminish the stress in your life
- Reduce the number of bills you pay
- Improve your credit score
- Teach children good money habits
- Own your assets
- Increase your future earnings

- Escape the grasp of your lenders

Be Encouraged

The ultimate goal of this book is to provide positive encouragement to you in hopes of sparking a change in your financial outlook. I can tell you from personal experience that living off a budget and getting out of debt will radically transform your life forever. I spent most of my life agonizing over money. Growing up poor carried over into my adulthood and caused me to fret over every major financial decision. My hyper-focus mentality on money resulted in a tremendous amount of undue stress and anxiety—which began to adversely affect my health. My anxiety led to irritable bowel syndrome (IBS) and my headaches worsen into migraines. Additionally, my constant worry of money made it difficult for me to attain restful sleep.

Our materialistic society inundates us with thousands of daily ads to convince us we *need* a product or service we didn't previously know existed. This perpetuated my discomfort. I constantly asked myself:

- How do I get more money?
- Will I be poor my entire life?
- Will I be in debt forever?
- How do I get out of debt and STAY out of debt?
- Why am I so obsessed with money?

These questions, and many more like them, constantly rattled in my head. It wasn't until I made a conscious decision to begin educating myself on fiscal responsibly that I started changing my outlook in a positive and healthy manner. Speaking of *education*, I continue to be perplexed as to why one of the most vital and basic life skills is rarely found on any level of school curriculum. What do you think our society would look like if the concepts of this book were taught in kindergarten on up?

The benefits of taking control of your finances are countless. Budgeting leads to wisdom and maturity. It also provides a peace of mind and contentment like few other things can. You will discover a whole new level of options and opportunities in your life.

Go from skipping vacations in order to pay bills to planning the vacation you never thought possible. Realize the empowering feeling of paying for major purchases in cash. Creating more money for yourself will allow you to be more generous. Being fiscally responsible has brought healing to many families, but this benefit isn't just for the married crowd. Singles can develop personal discipline and find accountability that has an impact on their relationships as well.

What's more stressful than running out of money before you run out of month? Failing to track your money creates an incredible amount of stress—stress that can be relieved by budgeting every month. Compare it to having a disorganized garage or basement. If you clean and organize that space, life instantly becomes better. You can breathe easier and enjoy things more. The emotional benefit comes from doing the same thing with your budget. You get to skip that extra stress by simply keeping things in order.

What This Book Is and Isn't

This book was written to share simple budgeting, saving, and debt relief techniques. It is not an investment strategy book. You will not read about stocks, bonds, money market accounts, or real estate investments. Additionally, you will not learn about U.S. equities, select equity sectors, emerging market equities, select emerging market currencies, yield enhancers, U.S.

senior loans, U.S. Treasury Inflation-Protected Securities, or underweight position in nominal U.S. Treasuries. You will also not read about investing in gold, silver, or other precious metals. Nor will you be advised on investing in the latest flash-in-the-pan items like Beanie Babies, baseball cards, comic books, or Franklin Mint plates. There are a plethora of resources out there covering all these topics should you have the interest to explore them. Finally, this book will not promote any get-rich-quick schemes.

However, you will find this book to be a practical guide to creating and sticking to a simple budget to create balance in your life. You will also discover my thoughts on spending, budgeting, debt, and savings based on my personal experiences and how you can apply it to your situation. I will teach you how to view money differently and change your mindset toward it. While you learn how to manage money in the present, you will also see how the decisions you make today can affect your future. You will be challenged to think in percentages instead of specific dollar amounts. Additionally, I will share my thoughts on giving and how important and rewarding it can be.

Why listen to just me? I'm no financial expert. That's why I decided to create three parts to this book—Part I: *What I Say*; Part II: *What They Say*; and Part III: *What You Say*. Part I covers my personal story along with my wife's. In Part II, you will find several riveting interviews I conducted with people from all walks of life who possess an array of perspectives on money. By simply asking, "How do you define money?," the responses I received were fascinating. I can't begin to tell you how much I learned from my interview subjects, and I know you will, too. In Part III, it's your turn. I offer my final thoughts to encourage you to reach your goals.

To achieve the ultimate goal of financial freedom, you’re going to have to invest the time and grind it out to fulfill the fruits of your labor. Mentally prepare for the journey while knowing it’s going to be worth it in the end. After all, it’s *your* life.

Let’s do this!

PART I:

What I Say

Chapter 1

Why Margin Matters

Money makes us more of what we really are, for better or for worse. – Dave Ramsey

If there's one thing we can all probably agree on, it's that we want more money. While the reasons *why* may vary, the goal is the same. Have you ever wondered why we always want more money no matter how much we have? Most people equate money with security. For some, more money equals more power. To others, money is a measure of success. When you dive deeper to unveil what people truly care about, it's almost always one or more of the following:

- Providing special experiences for themselves and the people they love
- Being able to influence causes that are important to them
- Leaving a legacy in honor of what they believe in

Being Unbalanced

When you're out of *balance* you're not sure what to focus on. Interestingly, people who agonize about money probably have enough of it—they just don't have balance. It's the management of money that's the problem. The more money you have, the easier it is to be out of balance and stay out of balance. Any time we have extra of anything we tend to be undisciplined with it. As a result, the stress and anxiety of being unbalanced with your finances affects your physical wellbeing and will undoubtedly cross over to nearly every aspect of your life whether you realize it or not. Consider the following:

- Money is the #1 cause of stress for Americans—even more than work, family, and health problems.
- People who stress out about money are twice as likely to have a heart attack.
- Highly stressed people are 65% more likely to suffer from back pain and muscle tension and 13 times more likely to suffer from insomnia.

There's an easy way to avoid stress caused by your finances. Research shows that people who take an active role in managing their finances are less stressed and more confident when it comes to money.

The Psychology of Money

In his book, *POGUE'S BASICS: MONEY – Essential Tips and Shortcuts (That Nobody Bothers to Tell You) About Beating the System*, David Pogue touches on an intriguing subject that I've rarely seen discussed—the psychology of money. He says:

> To really become great with money, you need more than a sense of economics. You also need an awareness of *psychology*—because, basically, money makes us crazy. We pride ourselves on being rational, on being the animal most capable of reason—and yet we fall into psychological money traps every day. One study after another shows that our idea of the value of a dollar swings *wildly* depending on the circumstances. For example:
>
> **We're absurdly swayed by comparison**. Would you rather take a $50,000-a-year job at a company where your colleagues are paid half as much or a $100,000-a-year job where your colleagues made twice as much? If you were rational, you'd take the job that paid *you* the most: $100,000. But most people offered this choice say

they'd prefer the $50,000 job—because they can't stand the idea of earning less than their peers.

Decision-making is exhausting. Economist Daniel McFadden has written about many of the ways that commonsense laws of economics break down when the human brain gets involved. He points out, for example, that making choices is tiring. That's why grocery stores put candy in the checkout lanes: After a lot of decision-making in the aisles, your brain is fried at the finish line and doesn't put up much of a fuss.

It's Emotional

Pogue is spot on when he says that money makes us crazy. Have you ever wondered why it stirs up so many emotions? It can easily spark feelings of shame, success, fear of failure, and how people view you. Many of us associate money with our self-worth. I know I have. Additionally, society seems to discourage us from talking about money, which is probably why learning about money is so intimidating. Unfortunately, our culture has no structural system in place to teach us—maybe it should be taught in schools. Perhaps it's difficult for us to discuss money because there is no universally agreed upon standard of measurement for financial metrics. The irony is that if you want to fix your financial situation, talking about it is necessary. But we view poor money skills as something to be ashamed and embarrassed of, which can keep us from being honest about it and seeking help. If your finances cause you stress and anxiety, it's natural to want to keep it to yourself.

***Jason Says**: According to Fidelity Investments, 43% of Americans don't know how much money their spouse makes yet fighting about money is a top predictor of divorce. When you don't even know your household income, you can guarantee a financial fight will eventually erupt.*

Start small by breaking the silence. It's hard to learn about something when you're discouraged from talking about it. If you're intimidated by personal finance and unsure of where to start, remember that you don't have to learn everything about money at once.

Learning from Your Actions

One of the unique and unsettling problems in dealing with personal finances is that when you begin to make unwise decisions there are no immediate consequences. When we face immediate consequences as human beings, we react and respond. We learn to avoid such things. Since our unwise financial decisions do not immediately result in negative consequences, many of us fixate on our current choices. But in fact, it's a culmination of bad decisions that have been made over the course of several years. Pretending there isn't a problem will only make things worse. Don't get discouraged—there is always hope. Learn from your past mistakes.

Personal finances never follow the law of fairness. It's not *fair*, but it can be balanced. It's best to stop thinking about fairness and start focusing more on *opportunity*. We want to be free financially. We want to have *margin.*

Margin in this book refers to the amount of money remaining after you've paid all your monthly expenses. It's also known as *disposable income*.

How Do You Define *Freedom*?

My friend Tana Gildea is a certified financial planner (CFP®) and a certified public accountant (CPA). She is also the author of *The Graduate's Guide to Money: Tools for Starting*

Your Financial Journey on the Right Foot. In her book, she shares her thoughts on creating freedom in your life:

> Some say that money is power, but money is also freedom: freedom to choose what you want to do and when you want to do it, freedom to support the causes that are important to you with your time, talent, or treasure, and freedom from being dependent on someone else to pay your way. Only you can decide what level of freedom is important to you and what you are willing to give up in order to get there.
>
> Think about what kind of financial life you want and what level of net worth would create freedom and peace of mind for you. You have the power to make that vision a reality, but only if you make thoughtful, conscious decisions, set some goals, and actively pursue them.

You can read more thoughts from Tana on page XX.

Knowing Your Why

What's your objective with money? Maybe you just want to be financially free, but what does that mean? How should you organize your wealth to remain balanced? A recent study by Northwest Mutual stated that 58% of Americans believe their financial-planning efforts need improvement, but 34% have done nothing to plan for the future. Now is the time to determine a clear objective. Start taking control of your finances before it takes control of you. Write out a timeline of clear, obtainable goals and give yourself a deadline for each one. You will be surprised at what you can accomplish. How can creating more margin for yourself help you achieve your dreams for the future?

Chapter 2

How I Did It

A man in debt is so far a slave. – Ralph Waldo Emerson

It was sometime in my mid-20s, after I purchased my first home, that I realized I wasn't doing life right. In what seemed like a blink of an eye (in addition to my new mortgage debt) I had amassed approximately $13,500 in consumer credit card debt. While that might not seem like much, when you consider I was making just $23,000 a year at the time, the figure was enormous.

How It Happened

Simple—I swiped my credit card for every purchase I made. I've heard some financial experts say that, on average, we end up paying double what we buy on credit after factoring in the compounding interest. I've seen credit card interest rates range anywhere from 15 to nearly 30%. If you have a rate below 15, consider yourself lucky! I frivolously used my card on all the joys of being single: clothes, restaurants, entertainment, and vacations. I also swiped it for life's staples such as groceries, gas, and car maintenance. There were no major buys or emergency purchases. It was a valuable lesson in how quickly debt can happen if you're not paying attention.

What I Did

As a result of several wise influences in my life including my parents, church leaders, and mentors, I came to the realization that I was headed down the wrong path financially. My mom constantly called me out on my *frivolous* spending. My pastor preached several financial-related sermons that inspired me. My mentor educated me on making smart investments. I also began seeking out books and radio shows that discussed financial topics.

The first thing I did was STOP using my credit card. I took it out of my wallet and buried it at the bottom of my sock drawer. I had absolutely no chance of paying it off if I continued to accumulate more debt. Then, I started using my debit card and began paying more attention to my checking account balance—making sure not to spend more money than I had.

During this time, I discovered Dave Ramsey's radio show. He is a financial peace guru famous for helping people get out of debt. My favorite segment of his program is when callers share their personal debt-free story. At the end of their testimony, Dave has them proudly proclaim, "I'M DEBT FREE!" Those shows were a tremendous source of inspiration for me. Additionally, I got plugged into Atlanta consumer advocate Clark Howard's radio show, which is known for sharing tips on saving money and eliminating debt. Clark is famous for his frugalness.

I also started educating myself by voraciously reading various books on the subjects of personal finance, budgeting, saving, and debt. Included in this was Dave Ramsey's *The Total Money Makeover*. I was motivated to get out of debt and stay out of debt forever. I started to understand that every small decision I made added up at the end. My thoughts and feelings about money began to change. I didn't view it as an endless supply to use haphazardly as I saw fit, and I grew to despise debt of any kind. I wanted to change the trajectory of my life to alleviate undue stress and anxiety caused by always worrying about money.

My second course of action was putting together a written budget. I determined where my money was coming from and where it was going to. Where it was coming from was the easy part—I grabbed a copy of my recent pay stub. Tracking my expenses was more challenging. I began this process by writing everything out on a piece of paper. I started by listing my recurring monthly bills: mortgage, electric, gas, cable, car payment, HOA fees, cell phone, etc. It was determining all my other expenses that required work. I figured it would be easiest to log onto my online banking account and print out the previous month's statement. This captured all my expenses that were attributed to my debt card. However, I also needed to account for my credit card and cash purchases. I then proceeded to construct a handwritten budget (we will cover more of this in chapter six).

Creating Margin

There are two ways to generate more margin: 1) earn more income; and 2) cut expenses. Since I had no control of if or when I would receive a salary increase from my employer, I realized that cutting my expenses was the most feasible option. I downgraded my cable and cell phone plans and cut back on my food spending (grocery and eating out). It was the beginning of a complete lifestyle change.

After exhaustively reviewing and shaving as many unneeded expenses as I could, I began seeking other sources of income. I rented out my spare bedroom to a friend for $650 a month. Boom! That gave me an additional $7,800 a year. I also landed a part-time (seasonal) job scoring games and keeping stats for the Atlanta Braves. They paid me $100 a game, and I worked 40 games a season. Boom! An additional $4,000. That, added to the rental income, gave me an extra $11,800 a year. I developed a laser focus on getting out of debt as quickly as I could, giving myself a goal of one year. I would live frugally off my full-time salary and use all the extra money to pay off the debt. Although I didn't hit my target goal, I'm proud to say I crushed $13,500 of debt in just 13 months and haven't used a credit card since.

Reflection

Contrary to what many people might think, I did not turn into a hermit. I did not live off Ramen noodles or rice and beans for a year, but I'm sure there were some peanut butter and jelly sandwiches along the way. I certainly didn't go out and drop $50 at a restaurant for a single meal—the equivalent of what I spent a week on groceries.

It was about making smart choices and separating needs from wants. I was single. I wasn't going to give up going out with my friends and having a good time, but I did so in a more deliberate way. For example, if a group of my buddies invited me to a big game requiring a high dollar ticket purchase, I would scour the aftermarket for a cheaper option. Craigslist and eBay are excellent sites for finding discounted tickets to big events. Think of all the people who bought tickets well in advance of an event, then life happens, and they can't make it. They don't want to be stuck with the tickets—especially if they paid top dollar for them. So, the easiest thing to do is quickly sell them on the internet to recoup some of their cost. I've always been able to find good deals through this method, but if that didn't work I had no qualms showing up at the stadium empty handed and buying from a scalper—when it was legal, of course.

Jason Says: *Assuming it's legal, the best way to save money on professional sports tickets is to hang around the stadium before the game and identify all the scalpers. Usually, as the game time gets closer, the scalper's asking price drops. Want a really good deal? Wait unit the game starts. Then you have all the leverage because the scalper would rather get less money than be stuck with a bunch of tickets to a game that's already started. Obviously, there are exceptions to this strategy, like the Super Bowl.*

All those times I did meet my friends at a restaurant, I developed the habit of always ordering the cheapest menu item, which was usually a turkey club and water. It was more about the social aspect and less about what I was eating. There were times when I didn't even place an order. I'm sure people thought I was a tightwad, but I didn't care: I had financial goals to attain. Many called me *frugal*, but I prefer the word *resourceful*. As challenging as the reprogramming of my spending habits and the altering of my perception of money was, it ended up serving as a training ground for what I would encounter as a newlywed.

Chapter 3

How We Did It

You cannot spend your way out of recession or borrow your way out of debt. – Daniel Hannan

By the time I met my wife, Amethyst, it had been nearly 10 years since my metamorphosis from the *ignorance is bliss* attitude to my structured frugality. When we began dating she had just graduated from Kennesaw State University with a teaching degree. I knew she had school loan debt, but it wasn't until we started discussing marriage that we began working together as a team to tackle her entire debt. In addition to her school loans, Amethyst also carried several small credit cards and store cards such as Target. All told, she had accumulated nearly $60,000 in debt. When Amethyst's debt-free journey began, she was almost 28. She confidently announced an aggressive goal of becoming debt free by the time she turned 30.

How It Happened

As she says, these cards were used for *survival* on things such as food, gas, and rent. She did work while going to school; however, her last semester was spent serving as an uncompensated student teacher. The majority of the debt was a result of student loans that were used for tuition and books, along with living expenses such as rent and utilities. She was by no means materialistic, which shows how easy it is to produce a massive amount of debt in a short period of time based on minimal living expenses.

What We Did

We took a similar approach to the action items I implemented as outlined in the previous chapter. The only difference was that because the debt amount was larger, I knew the process would take longer. However, we were planning our wedding and combining our income and finances. This created a team dynamic that proved invaluable as we became each other's accountability partners.

First, we stopped using her credit cards. To make certain we didn't *slip up*, we put the cards in our shredder! Then we started paying off each card by knocking out the one with the smallest balance, then the next smallest balance, and so on. Using this strategy generated some much-needed confidence and momentum as we paid off the cards one at a time. Crushing the credit card debt was the easy part, as the balance on each averaged about $500. Then came the more daunting task of dominating the student loans.

By this time, we were married, and Amethyst landed a good, stable job as a nanny with a great family. Sadly, she came to the realization she could make more money as a nanny than as a school teacher. I was working full time at a local public relations boutique as an account coordinator. Our combined income was about $60,000. We knew if we could both keep our jobs, we could realistically be debt free in about two years.

Amethyst went the old-school route when creating the budget sheet—using pen and paper. She wrote everything out by hand. She used a spiral bound notebook with each page representing a month. She had every anticipated expense accounted for and tracked all money coming in. It was during this time I discovered that she was the proud owner of an intensely Type A personality. After teaching her everything I knew about budgeting, it became evident that I had created a monster. She took the bookkeeping lead, and I got out of the way.

Due to my prior *behavior modification* reformation, I had built up a decent savings of approximately $20,000. After careful consideration and seeking wise counsel from my mentor David Schofield (see page XX), who is quite savvy financially, we decided to use the savings to pay down the debt in order to expedite the process. One of the main reasons for this decision was because several of the loans carried high interest rates. Our rationale was the following: by paying it off faster, we were paying ourselves the interest instead of the lenders.

behavior modification → noun; relies on the concept of conditioning to alter behavioral patterns through the use learning techniques as positive reinforcement.

In addition to our regular, full-time job income, we became resourceful in generating extra income in a multitude of ways. All extra income we used solely to pay off debt. Those sources included

- Babysitting
- Recycling aluminum cans and other metals
- Garage sales
- Manual labor side jobs
- Tax returns
- Christmas and birthday money
- Selling stuff online (see below)
- Participating in marketing research studies (see below)

Additionally, I developed a keen knack for selling items on eBay and Craigslist. Over a 10-year-period (2006-16) I earned nearly $20,000 from eBay sales alone. Anybody can do this, but it takes work and lots of trial and error.

Another way of earning extra cash was unearthed by our discovery of marketing research firms. For example, in the Atlanta market where we live, there are dozens of these types of agencies that hire random people to participate in research studies. The most popular studies seem to be taste tests for various restaurants. These studies usually pay good money— ranging anywhere from $50 to $300 (and you get free food!). Additionally, I was picked to serve on a mock jury that paid $350! Over a three-year period, my wife and I earned nearly $8,000 solely from doing these studies.

How You Can Get Paid for Marketing Research

1. Refer to the list of firms I've provided in the Resources section in the back of this book.
2. Go to each website, see if they have a location in your area, create an account and enter your information into their database.
3. You will start getting phone calls and emails from recruiters on a regular basis to participate in screeners to determine your eligibility for a study.
4. Don't get discouraged if you are not picked. It's a numbers game, and they are looking for certain demographics. By submitting your data into more databases, the better chances you have of being selected.

Creating Margin

It was vital for us to continue our newly revamped lifestyle after we successfully paid off our debt. Our first goal was to rebuild the depleted emergency savings fund and then to make wise financial choices moving forward. We retired from yard sales and recycling aluminum cans, but we continued the marketing studies and eBay selling. With the debt monkey off our backs, the next challenge became *staying* out of debt.

By continuing to apply the same strategies and mindset we used to dig out of debt, we rapidly built our savings back up to around $10,000 over the next year. We continue to seek out opportunities to earn extra money when feasible. This is what has added to our margin.

Reflection

Due to the team aspect, crushing Amethyst's debt was an entirely different experience than eliminating mine had been. Working with my wife to conquer this monumental task was more rewarding because it allowed us to celebrate each milestone together and encourage each other along the way. Having an accountability partner in anything you do almost always leads to better motivation and results. Rest assured, having a teammate in this process isn't limited to just spouses. Perhaps you know a friend, relative, or co-worker in the same financial situation as you. Joining forces with a like-minded person in your debt-free journey will almost certainly produce positive results.

It's vital to be on the same page with your partner when working on such a monumental task—especially when it comes to finances. I'm sure most newlywed couples endured the same immediate questions we received upon tying the knot, such as, "When are you going to buy a house?" Our response: "Not until we get out of debt." "When are you going to have kids?" Our response: "Not until we get out of debt." We recognize not everyone is fortunate to have this window of opportunity, so we took full advantage of it in hopes of remapping our future along with our children's.

Without a doubt, sacrifices were made to achieve our goal in a relatively short time. When you are in a process like this, it's imperative to not dwell on the negative (what you are giving up) but focus on the little successes along the way while also seeing the end goal. Due to hard work, extreme focus, and a positive attitude, we paid off $60,000 in debt in about 2.5 years.

Chapter 4

Spending

“For where your treasure is, there your heart will also be.” Matthew 6:21

Few things in life can cause joy, shame, contentment, anxiety, and stress the way money does.

In America, we cannot seem to get enough of what we don’t need. Have you ever tried to make it through a day without being exposed to advertising? Unless you stay in bed with the covers over your head, it’s virtually impossible. Marketers are getting more creative in how they shove unwanted ads in front of us. According to Jay Walker-Smith, president of the marketing firm Yankelovich, we've gone from being exposed to about 500 ads a day back in the 1970s to as many as 5,000 a day today. For many of us, this generates a lot of temptation.

Where Has All My Money Gone?

A recent study by Slickdeals, the largest consumer-driven deal-sharing platform, found that respondents spend an average of $450 every month ($5,400 annually) on impulse spending. That comes to a whopping $324,000 over the course of a lifetime (60 years). On average, the top purchases that Americans impulsively buy are: food and groceries, clothing, household items, takeout, and shoes. People tend to impulse buy more when they're happy and excited as opposed to sad or stressed. The majority of impulse buys (54%) tend to be for oneself. The main reason for impulse purchases is because of the deals on that product. In fact, 64% reported that they shop impulsively if there's a deal. Once again, the marketers get us.

Jason Says*: The harm with impulse buying is when it becomes habitual. The end result in most cases is that we’ve paid for an item that we really don't need or want. Before making a purchase sleep on it—especially a major purchase.*

Major Expenses

Why Your House is a Bad Investment

It’s been called the *American Dream*, but is it? It’s time to stop thinking of owning a house as the dream investment. When we talk about good debt versus bad debt, most people routinely list buying a house (and holding a mortgage) as *good debt*. Why? Because homes usually appreciate in value, and, of course, you need shelter. The real reason your grandparents’ house appreciated so much over the past 40 years? It’s simply inflation. According to the Consumer Price Index (CPI), over the last 100 years, the average U.S. real estate values gained less than 1% when adjusted for inflation. There’s about $15 trillion in mortgage debt in the United States. This is how banks make money. They want you to take on debt or else they go out of business.

Carrying Costs

Typically, when you purchase an asset, it doesn't require an ongoing investment of cash—except for a house. Not only do you have monthly mortgage payments, but you also have to pay real estate taxes, homeowners insurance, sometimes private mortgage insurance (PMI), and utilities. Additionally, you have the *privilege* of maintaining the property, which means managing all the repairs and maintenance as necessary. These expenses are known as *carrying costs*—the costs of carrying the investment.

carrying costs → expenses that reoccur as they are necessary for the upkeep of your home.

Even more costly are the major repairs associated with the joys of homeownership. This can include replacing the roof, siding, windows and doors, carpets and flooring, and driveways. For example, our exterior air conditioning unit died. It cost us about $2,200 to replace. We felt lucky it wasn't more. In addition to unforeseen repairs, you may also engage in major remodeling requiring the replacement of kitchens and bathrooms. Each of those expenses individually can cost thousands of dollars. Over the course of several years or decades, they can cost tens of thousands of dollars. True investments don't require that kind of outpouring of cash on a recurring basis. You can rationalize those expenses since the house is providing you shelter. But that gets back to the original premise—a house is shelter, and not really an investment.

The Brass Tacks

Let's say you purchase a house for $250,000, and 10 years later you sell it for $400,000. Good investment? Sure, but only if you don't look too closely at the numbers. If the house cost you $1,000 per month for principal, interest, taxes, and insurance (PITI), plus $300 per month for utilities, you will have spent $15,600 per year, or $156,000 for the decade you lived in the house.

If you spent another $3,000 per year on routine repairs and maintenance, you will spend another $30,000. If you did some of the more major repairs, like replacing the roof and flooring, and remodeling the kitchen and bathrooms, you probably easily sunk another $50,000 during that time. That's a total of $236,000 over a 10-year period, to get a $150,000 gain on the sale.

While it is certainly nice to walk away from the house with $150,000 more than you paid for it, the math doesn't support the idea of the house as a winning investment. We haven't even accounted for transaction expenses (like the 6% realtor commission), inflation, or that the value of the house may not rise that dramatically over the next 10 years.

***Jason Says**: Remember, a house is not an investment if you never plan to sell it.*

My Condo Story

In 2001, I bought a condo in Roswell, Georgia, a suburb about 20 miles north of Atlanta. It was my first and only home purchase to date. I paid $98,400 for it and then watched the value drop like a lead stone after the market crashed in 2007-08. During the 6-year period of 2007-12, the only units that sold were through short sales or foreclosures. I cringed as condos in my complex sold for as low as $19,000 in foreclosure auctions. In 2012, I was fortunate to refinance my mortgage and cut my interest rate in half. During the process, my condo was *appraised* at $80,000. It wasn't until 2014 that my complex saw another *conventional* sale and it wasn't until 2016 that the prices fully rebounded and began to increase. Today, we finally have some equity and are focused on paying off the remaining balance of our mortgage with the goal of being completely debt free.

The Comparison Trap

It’s natural to observe how everyone around us is living their lives—and thanks to Facebook, it’s caused us to become much more hypersensitive to it. Social media sites have made it all too easy to fall into the *comparison trap*.

comparison trap → measuring yourself against others in a harmful way that can leave you feeling chronically inferior or depressed.

During the time my wife and I were dating and the first few years of our marriage, many of our friends also tied the knot. Most of them bought houses before or immediately after they got married. These home purchases fell in the range of $250,000 to around $400,000. When we got married, my wife was happy to move into my 2-bedroom, 2-bathroom, $100,000 condo. Thankfully, we share the same mindset of—*Why does a young couple (with no kids) need a 5-bedroom, 3-bathroom house?* Of course, we were also trying to pay off all our debt and had no interest in buying a house and taking on more debt.

More recently, we’ve seen several friends, family, and acquaintances purchase homes in the range of $500,000 to close to a million dollars. Once again, we ask, *Why?* While trying to not sound too judgy, it seems as if there are so many more productive things you can do with your money than pay a $3,000+ a month mortgage. Another thing to keep in mind—if you are upgrading from a smaller home to a much bigger one, guess what? You are going to have a lot of empty space to fill. That means you’re going to be buying a lot of new furniture to fill all those extra empty rooms. And don’t forget, you are now responsible for heating and cooling a larger space which means higher utility bills. These are major factors that most people leave out of their new home budget. Don’t get caught being *house poor*.

Jason Says*: One reason why we are trying to stay in our condo as long as we can is because it is space limited and forces us to be minimalists.*

Engagements & Weddings: Getting married (or not getting married) is one of the most important decisions you'll ever make. If you're fortunate enough to meet your one and only, you will quickly realize there is a major price tag that comes with it. Have you ever noticed when it comes to weddings, money is no object? Is it because *love is blind*?

First, let's start with the engagement. According to The Knot's 2017 Real Weddings Study, Americans on average spend $6,351 on an engagement ring. For us guys, this is a serious investment BEFORE we even get to the wedding—not that you ladies aren't worth it. The same study cited the average cost of a wedding dress at $1,461.

Now on to the wedding—it's finally happening, and you'd better make it the best, most memorial event ever, right? Between the time I was 25 to 35, I attended a lot of weddings. It seemed as if everyone I knew was getting married (and remarried), which resulted in me attending a wedding at least once a month. It was exhausting, expensive, but also educational. I found myself taking mental notes at each wedding with most thoughts being, "That will NEVER happen at MY wedding." I also took note of the estimated costs of these extravagant galas and struggled to comprehend the rationale. Specifically, I've been to weddings that I know easily cost more than $50,000 and some that probably reached six figures. And the popular *destination weddings* tend to drive up the price. Being the practical and logical person that I am, I thought, "Wouldn't you rather take that money and use it for a down payment on a nice house?" as opposed to having a 4-hour, blowout party with half the people there you don't even know or like. Is it necessary to have 200 people at your wedding? Do you even know 200 people (in real life)?

The wedding industry is big, real big. According to 24/7 Wall St., there are more than 2 million weddings every year in the U.S., and business is booming. Last year, it was a $56 billion industry. In America, the average wedding cost is nearly $26,000 according to The Wedding Report.

Jason Says*: Did you know: Europeans spend roughly $5,500 to get hitched. Something to think about.*

Our Wedding Story

My wife and I were both turned off by the big, outlandish weddings and thought it was a huge waste of time and money nor was the stress of planning a wedding over an 8-to-12-month period appealing to us. Our decision process was aided by taking part in several of our friends' weddings and seeing firsthand the amount of stress and anxiety that went into every little detail of the momentous occasion—not to mention all the family drama. (All my friends are reading this right now thinking, "Is he talking about *our* wedding?" Of course not!)

After learning valuable lessons from attending numerous weddings during our courtship, and since we were paying for our wedding ourselves, my wife announced that she wanted to elope. I wanted a small event that would include my immediate family. The idea of a wedding on a cruise ship popped in my wife's head as she recalled a previous wedding she was in that took place on a cruise liner. She began searching online for costs of cruise weddings. Knowing her favorite day was New Year's Eve, we looked for potential events on that day—which I believe also helped bring down the cost. She found a wedding and honeymoon package deal offered by Carnival Cruise Line that fit our budget. On December 31, we traveled to Tampa, Florida, where the ship was ported and had our wedding onboard before it left. The package allowed us to invite 20 guests and provided a full buffet of food and open bar. It was cool to be treated like royalty and allowed to board the ship several hours before the thousands of other vacationers. Our wedding was at 1 p.m. We brought all our guests onboard and were the only ones on the ship except for staff members. Then, we kicked our families off before we set sail on our 5-day honeymoon cruise later in the afternoon. We paid $3,000 for everything, but the irony is they tried to upsell us a photography package for more than we paid for the entire trip. We passed on the premier package and bought a few prints instead. When we returned home as newlyweds, we hosted a reception event for all our Atlanta friends for the cost of $500.

I will admit, we did things a little backward. We planned our entire wedding and honeymoon *before* I asked her to marry me. I guess we just knew.

What We Spent

- Engagement ring and band - $2,000
- Groom's ring - $350
- Wedding dress - $300
- Wedding/honeymoon cruise package - $3,000
- Reception for our Atlanta family and friends - $500
- **TOTAL → $6,150**

In hopes of not sounding too braggadocious, I would like to share that over the years we've had several of our friends and acquaintances (perhaps still paying off their weddings) tell us how "We did it right," and "We should've done something like you did," in regard to their weddings. Hindsight is always 20/20, I guess.

***Jason Says**: [Free Marriage Advice Alert] Don't get consumed with planning for your wedding when you should be planning for your marriage.*

The *Real* Cost of College

According to collegedata.com, the actual cost of a college degree is more than you might think. Below is a breakdown of all the expenses you can expect before earning that coveted degree:

- **Fees**: This is what colleges charge for services that may include the library, campus transportation, student government, and athletic facilities. They are rarely optional. In various college cost compilations, colleges often report a combined tuition and fees figure. According to College Board, the average tuition and fees combination for the 2017–2018 school year was $34,740 at private colleges, $9,970 for state residents at public colleges and $25,620 for out-of-state residents who attend public universities.

- **Housing and meals**: Also described as "room and board," this line item depends on which campus housing and food plans you choose. College Board reported a range of average room and board in 2017–2018 from $10,800 at four-year public schools to $12,210 at private schools. Schools typically provide an estimated cost of living off campus at schools where that is allowed.

- **Books and school supplies**: Based on college cost estimates for required learning materials (sometimes including the cost of purchasing a laptop), College Board reported the average cost for books and supplies for the 2017–2018 school year was $1,250 at public colleges and $1,220 at private colleges.

- **Personal and transportation expenses**: Colleges may also provide estimates for attendance-related expenses that will never show up on bills that come directly from the school. These costs include local transportation, clothing, personal items, and entertainment. The College Board reported expenses in this category for 2017–2018 ran from $2,730 at private colleges to $3,270 at public universities.

TOTAL → Going by the above data, the total cost to attend a public college as an in-state student would be $25,290 per year and $101,160 after 4 years.

How I Paid for College – Twice

Undergrad

The fall of 1993 was the beginning of my collegiate journey at Kennesaw State University (KSU) located in Kennesaw, Georgia—just north of Atlanta. Back then, it was known as Kennesaw State College and was a commuter school with an enrollment of about 13,000. Although I had been working since my 15th birthday, there was no college savings, nor were my parents in a financial position to assist me. Therefore, living at home and commuting to school was my *only* option in order to pay my way through.

During the start of my college career, I was a part-time employee of Chick-fil-A—working full-time hours. With my parents graciously letting me live at home for free, most of my money was used on school and transportation. After two years at Chick-fil-A, the company awarded me a $1,000 scholarship. Back then, we were on the quarter system, so that paid for two quarters and was a huge help. Out of convenience, I quit Chick-fil-A to find work closer to campus. After landing a retail job at Town Center Mall in Kennesaw about a mile away, I became more involved in on-campus activities—joining the staff of *The Sentinel* (KSU's student newspaper) as a sports writer/editor as well as working in the sports information department within the athletic department. At the time, my passion for sports was leading me toward becoming a sports broadcaster.

As a junior, I was working three jobs and going to school fulltime. The jobs were ideal because two of them were on campus and the mall job was across the street. Even with three jobs, money was not plentiful. My mall job paid close to minimum wage, *The Sentinel* paid $50 a week after my promotion to sports editor, and athletics could only pay me as a game worker. Operating scoreboards, keeping stats, and serving as the public-address announcer for various sports were some of the tasks I performed. They paid me $10-$15 a game—depending on the sport. It was basically a volunteer role within the sports information office, although I did turn that work into an internship course credit.

After working with the department for nearly three years, Athletic Director Dr. Dave Waples changed my life. Perhaps feeling guilty for all the uncompensated hours I'd poured into Owls' Athletics, he put me on a full *athletic scholarship* for my final year of school. To my knowledge, I was the first *non-athlete* to receive an athletic scholarship. It completely covered my tuition and books. Dr. Waples and his generosity were pivotal in my journey.

On August 8, 1998, (yes, it took me nearly 6 years!) I graduated with a bachelor's degree in media communication and walked across the stage completely debt free—naïve to the fact of my massive accomplishment. My grades weren't spectacular (2.8 GPA), possibly due to working all those jobs, but never did it occur to me to take out student loans. It was not part of my mindset. Perhaps because my parents never modeled or preached that debt is the answer. If you don't have the cash to pay for it, you can't do it. That's what I've always thought. So what do you do when you live that mantra? You find a way to get the cash. You work hard and become resourceful and creative. I recognize that the cost of college has ballooned since my undergrad days (more on this in the next chapter) and many students feel forced into loans (or feel that debt is a way of life) in order to earn their degrees. There is another way! Do whatever you can do to either graduate debt free or limit the loans you incur. Your 35-year-old self will be forever thankful. Trust me.

Grad School

In the fall of 2013, I came home to work full time for my alma mater as the first and sole copywriter for KSU's College of Continuing and Professional Education. A highlighted benefits perk was the opportunity to further my education for free. The school offered a Tuition Assistance Program (TAP) that would cover all tuition costs. My only out of pocket expense would be for books. The lone program KSU offered that interested me was its Master of Arts in Professional Writing (MAPW). Realizing the regret would be greater if I didn't go for it, I began the application process. Never in my wildest dreams did I think: 1) I would even qualify for grad school; and 2) I would ever be going back to school—especially at my age. Just the words *grad school* were very intimidating after being out of school for 15 years.

The next year was spent preparing for the GRE and working on the arduous application requirements. Several influential people wrote letters of recommendation on my behalf. This helped tremendously. The acceptance letter arrived in the fall of 2015 and my status as "student" began in January 2016. Working at KSU during the day and going to grad school at night comprised the next 2.5 years of my life. Adding to the challenge was the birth of our first child during my first semester of school. (He granted my request and arrived during spring break which resulted in not missing any classes.) Plugging away taking two classes at a time set me on a track to graduate within three years. To save money, most of my books were purchased in used condition on Amazon or eBay. Additionally, I was fortunate to be awarded two scholarships—one for $500 and one for $1,000—that helped pay for books.

The summer of 2018 presented me a job I could not refuse—a copywriter/copyeditor position for HNTB, a transportation consulting firm in Atlanta. Sadly, this meant losing out on any remaining TAP money from KSU, but luckily, only one semester remained to be paid for. In preparation to cough up the nearly $3,000 for my final semester, I was pleasantly surprised to discover my new employer offered a tuition reimbursement program. I couldn't apply fast enough.

On December 11, 2018, I graduated with a Master of Arts in Professional Writing from Kennesaw State University with a degree valued at nearly $20,000 completely debt free.

Tips to Avoid Student Loans

- Work while in school
- Apply for any and every scholarship you might be eligible for
- Look for employer-based tuition coverage
- Worry less about finishing fast if taking a bit longer to finish means you can devote more time to your studies (and get better grades) and you can graduate with less debt.

The point of these stories is to share with you that ***IT IS POSSIBLE*** to earn a college degree and receive a diploma in the mail instead of invoices for student loans. There are many different resources out there (see Resources section) that can help you pay your way through. If I did it (twice), so can you!

More on this subject in the next chapter.

Groceries

Are you like me and flabbergasted at your bill every time you go through the grocery store checkout line? There's a reason why people have nicknamed Whole Foods, "Whole Paycheck." Also, you've probably noticed that if you want to eat healthy it's more expensive. It's sometimes two or three times the cost to buy the same items with an "organic" or "gluten free" label on it.

According to the Labor Department, the price of all food has risen 26.8% over the past 10 years, outpacing the 21.9% inflation rate over the same period. Americans spend more than 6% of their annual income on food every year. For one person to eat on a "moderate" budget, it costs $3,000 per year, or almost $250 per month. It costs a family of 4 between $712 and $1,106 per month for groceries.

Several key factors generally affect food prices in the long run. High oil prices increase the cost of shipping, droughts and floods cause shortages of certain key products, and a growing appetite for more expensive food from an increasingly affluent world population drives up the overall demand and price of food. In the short run, the supply and demand of food are subject to factors such as weather, disease outbreak, and changing consumer preferences.

How I Eat

When I was single, I spent about $50 a week on groceries. Ah…those were the days. When I got married, the two us spend $100 to $125 a week, on average. Then, when we had our first child, that's when everything skyrocketed. Suddenly, we were spending $250 a week at the grocery store. Notice I said *at the grocery store,* not *on groceries* because many of the items we were now buying were not food related: they were things such as $35 boxes of diapers. As we continue to grow our family, our grocery budget will only increase. We work hard to bring the bill down, which you will read about in the Savings chapter. Eating, however, is required to live; so this is an expense you will always have but must learn how to be judicious with your choices.

Wondering About Cars Purchases? Check out the next chapter for my thoughts and tips on this.

Unplanned Expenses

This is the one that gets us all in trouble. How do you prepare for the unexpected? Well, that's why they call it an *emergency fund*. Remember my story about the A/C going out at my home? Here's another one for you: when my wife and I were trying to enjoy our honeymoon, my phone began to blow up with calls and messages from our downstairs neighbor. Since we were on our honeymoon, I had no interest in dealing with neighbor issues. After the third voicemail in 45 minutes I decided to call back. Apparently, there was water leaking from our unit down onto theirs. Of course, there was nothing we could do about it because we were several hundred miles away. When we got home, the first thing we did as newlyweds was call a plumber and have them repair the leaks, which cost us $2,500. What a lovely wedding gift that was! Life punches you in the face sometimes—that's why it's vital to prepare yourself the best you can. Don't lie to yourself and say, "Oh, that will never happen to me."

Top 10 Unexpected Expenses

1. Medical costs
2. Technology repairs (computers, TVs, smartphones)
3. Car troubles
4. Home repairs
5. Taxes

6. Traffic violations
7. Gifts
8. Travel (weddings, funerals)
9. Pets
10. Hidden work-related costs (e.g., a new suit for a big meeting)

Our (good) health is one of the biggest things we take for granted. Which is why it should be no surprise that medical bills are the #1 cause of U.S. bankruptcies, according to a CNBC. It's estimated that 643,000 Americans go bankrupt each year and more than 2 million people have been adversely affected due to medical costs. High medical bills from accidents are difficult to avoid. In those situations, a financial cushion is imperative. Don't expect health insurance companies to completely protect you. High deductibles and other out-of-pocket expenses have bankrupted many people. Plan to have at least the amount of your deductible in savings.

As you develop your strategy, figure out what system works best for you to establish an emergency fund. Open a savings account and start an automatic monthly withdrawal of $25 from your checking. At the end of one year, you'll have $300. Or you can put $100 cash in an envelope and hide it in your sock drawer every three months. Whatever system you choose, you'll alleviate a lot of undue stress if you have some emergency cash on hand. Start small and slowly build it. That way you won't notice when it's gone. It will become habit. Some money saved is always better than nothing.

More on this in the Budgeting and Savings chapters.

Needs vs. Wants

This may be hard to believe, but there once was a time when people only bought what they could afford. The younger generation reading this might have difficulty grasping the concept of *layaway*. This is what most Americans used when they couldn't afford the full price of an item. They would make payments on the item, and THEN take it home AFTER it was paid for in full. Now, with a simple swipe of a piece of plastic, the item is instantly yours. And by the time it's paid for, not only will you have shelled out more for it thanks to interest, you probably won't even still have or use the item anymore.

layaway → a system of paying a deposit to secure an item for later purchase.

What gets you in the most trouble when it comes to spending? The challenge of determining a *need* versus a *want*. We can justify the spending in our minds when it comes to making a foolish purchase. This is where *behavior modification* comes into play. Don't be driven to make bad financial decisions based on stuff you don't have. Most of us have more stuff than we've ever had before. Discontentment is dissatisfaction with what you have, and awareness is what fuels discontentment. You are happy with your current possessions until you become aware of other items. You have become aware of a product or service you didn't have and now you want it. Advertisers are shrewd at magnifying this awareness in an effort of letting us know about things that we "must have."

In 2008, my wife bought a new Toyota Corolla and has had it ever since. It's now a 10-year-old car with 171,000 miles on it. There is nothing wrong with the vehicle and it gets great gas mileage. Yet, we constantly struggle with, "Should we buy a new car? The new Honda Pilot looks nice." The Corolla is old and a base model. It doesn't have power windows or locks. Although it's a 4-door car, it's not very roomy. A list of all the features we don't like about the car is easy to create. However, when we compare that to the prospect of having a $200 to $300 monthly car payment reality sets in. Nothing drives better than a paid off car!

Awareness drives your spending. If all you're aware of is what you don't have, it's going to fuel your discontentment and your debt. What fuels your discontent? What corrections can you make in your spending? The next time you're about to make a non-essential purchase, envision someone offering you the product in one hand and its cash equivalent in the other hand. If you'd rather take the cash, you don't really need the item you were about to buy. Take it a step further and transfer that money into your savings. For example, let's say you want to buy the latest video game system. The PS4 is a hot item and it retails for $299. But you already have an Xbox One, so you don't really *need* a PS4. Now envision that you're in line with that coveted PS4 in your hands and I cut in front of you and offer you 3, 100-dollar bills. Think about how much groceries you could buy with the $300, or the debt you could pay off, or the money you could add to your savings.

Jason Says: *It can be difficult determining needs from wants because your brain will play tricks on you. Write down everything you've bought in the past week and put them into two columns—Needs/Wants. For example, if you have a fully functioning iPhone 8 and you buy an iPhone X, that is a want, not a need.*

Why We Spend

My pastor, Andy Stanley, led a sermon series titled *Guardrails*. I appreciated one of the lessons called "Money Matters," which he said:

> Sometimes I wonder what I would *have* if I didn't know what everyone else had. How much influence do *you have* on what I have? I also wonder what I would *want* if I didn't know what everyone else already had. And I also wonder how much money I would have *saved* if I didn't know what you spent yours on. And sometimes I wonder how much money I would have *given away* to people who have less than I have if I didn't know what the people who have more than I have had. My problem is I know too much.

The paradox of possessions is that we assume the happiness we get from making a purchase will last as long as the item itself. It seems intuitive that investing in a good or service we can see, hear, and touch on a permanent basis delivers the best value. But it's flawed logic. Think back on some of the purchases you've made. Perhaps it was a new car or smartphone. If you were like me, you thought, "This is the last car/house/phone/pair of shoes I'll need for a long time." Now think about how much (or little) time passed until you were ready to replace or upgrade the item in question. Was it a lot shorter than you had originally planned upon purchasing the item?

Jason Says*: This may be the most important advice I give in this book—information I wish I knew when I was younger. If you are under 35, single, and don't have any kids, now is the best and easiest time to get out of debt and start building wealth. Why? Because as you get older your expenses increase. One day you may get married and have kids and be astounded at how many expenses you have. (Those in this situation are nodding their heads right now in agreement.) Take advantage of your youth and get your finances in order while time is on your side.*

Chapter 5

Debt is Not the Problem

We buy things we don't need, with money we don't have, to impress people we don't like. – Dave Ramsey

From my observations, people who portray an image of wealth are usually not rich. They are just deeply in debt. Only 20% of Americans are free from any form of debt, while almost half regularly spend more than they earn. Instead of wondering how much that person makes, you should wonder how much debt they are in. Debt is not the problem—it's the symptom of the problem. It's your behavior that's the problem. Dave Ramsey says getting out of debt is 80% behavior and 20% head knowledge. The bad news is that *YOU* are the problem. The good news is that *YOU* are the solution.

Top 10 Causes of Debt

According to Bankrate.com, these are the top 10 reasons why we go into debt:

1. Reduced income with same expenses
2. Divorce

3. Poor money management
4. Underemployment
5. Gambling
6. Medical expenses
7. Saving too little or not at all
8. No money-communication skills
9. Banking on a windfall
10. Financial illiteracy

All of us should be able to relate to at least 1 item on this list; however, the most dangerous item that people do not account for are *unplanned expenses*—see #6 or perhaps #2. This is why generating margin is so crucial. I strongly encourage you to create a line item in your budget for unplanned expenses. (More on this in the next chapter.)

Defining Debt

Think about specific actions that caused you to go into debt. The average American spends the bulk of their money on 3 things: housing, transportation, and food. However, it doesn't help when the rise in the cost of living has outpaced income growth over the past 13 years. Since 2003, the increases in these major categories have added to the challenge:

- Medical expenses up 57%
- Food up 36%
- Housing up 32%

It has clearly become more expensive to be an American. If you're like me, you might say to yourself, "I just need to make more money." Not so fast. As your income grows, so does the cost of your debt. Just making more money won't solve your debt problems. In fact, people's debt balances tend to increase as their income does, resulting in larger annual interest payments. Higher-income people can get higher credit limits more easily, giving them more room to rack up big balances. Low-income earners, on the other hand, don't have access to a lot of credit.

Good Debt vs. Bad Debt

Is there such a thing as *good* debt and *bad* debt? Opinions differ, but generally, most forms of good debt are defined as an investment in yourself—such as a school or business loan. Of course, assets that appreciates in value, like a house (in most cases), is considered good debt. Obviously, possessions that decreases in value is bad debt. Unfortunately, that describes many of life's basic necessities like clothes, automobiles, and that 80-inch, 4K, curved-screen TV needed to host your Super Bowl party. Some common examples from debt.org include:

Good Debt:

- **Mortgage –** For most of us, there is probably no better debt than a mortgage (with the exception of purchasing one during the Great Recession and real estate market crash in 2008-12). Likely the biggest financial decision you'll make, a mortgage is the path to homeownership. Housing prices increased an average of 6.4% a year from 1968 to 2004, and since the Great Recession ended (2012), have returned to a 6.8% increase per year.

- **Home Equity Loan or Line of Credit –** These are basically offshoots of a mortgage. You get a low-interest loan using your house as collateral. Many people use these to pay off higher-interest debts like credit cards. Some use them to make home improvements to help increase the value of their home.

- **Small Business Loan –** If you are truly passionate about generating wealth, your chances are much better if you start your own company and work for yourself. Small business loans are tougher to get because they are riskier to the lender. Nearly one-third of small businesses fail to survive their first two years, according to the Small Business Administration. If you have enough ambition, savvy, and luck, borrowing money to start your own business could be the best investment you'll ever make.

- **Student Loans –** Regarded as an investment in your future, student loans tend to have lower interest rates, especially if they're federal student loans. The idea is that you're buying an education that will lead to a well-paying career. However, you must consider your path wisely in order to achieve success. Degrees in the STEM fields (science, technology, engineering, and mathematics) have high earning potential. Conversely, you might never pay off your student loan if you major in liberal arts.

***Jason Says**: Aim for your student loan payments to stay below 10% of your projected after-tax monthly income after graduating.*

Bad Debt:

- **Car Loans –** For most of us, a car is a necessity. Try to keep total auto costs, including your car loan payment, within 20% of your take-home pay. Shoot for loan terms of four years or fewer, preferably with a 20% down payment. Be smart and avoid splurging on a BMW when a nice Honda will get you there just as well. *See page XX for more of my thoughts on this subject.*

- **Personal Loans –** Incurring debt for expenses like a vacation or new clothes is probably not a wise choice. However, personal loans can be a good option for consolidating debt.
- **Payday Loans –** These are short-term, small-amount loans meant to be repaid with your next paycheck—and should be avoided at all costs (pun intended). This is what I call *toxic debt* because it often comes with insane interest rates as high as 300%. Financial experts strongly caution against these types of loans.
- **Credit Cards** (especially with high interest) **–** If you're not making progress on your credit card debt, despite paying all you can monthly, you have a problem. Many credit cards carry extremely high interest rates of over 20%, digging you into an even deeper hole.

How Much is Too Much?

Have you ever been asked, "What is your *debt-to-income ratio*?" Were you like me, and answered, "Huh?" Figuring this out is not as complex as it seems—no math degrees required. Simply add up your monthly debt payments and divide them by your monthly gross income. For instance, if you have a $1,500 monthly mortgage, $200 car payment, and pay $300 a month for credit cards, your monthly debt is $2,000. (Be careful not to confuse debt with expenses here.) If your gross monthly income is $4,000, it means your debt-to-income ratio is 50%. It also means you should be losing sleep because a **more than a 43% debt-to-income ratio is a red flag to potential lenders**. Evidence suggests that borrowers with a higher ratio are more likely to have trouble making monthly payments—meaning you can't get a mortgage if your ratio is over 43%.

In summation, acquiring a low-interest loan that helps you increase your income or net worth is an example of good debt. Consequently, too much of any debt can become bad debt. All debts are not created equal. Sometimes, bad debt starts out as good debt. Do your due diligence to weigh the risks/rewards of your decisions.

Common Forms of Debt

College Ain't Cheap

This just in: College is expensive. Over the past 40 years, gas prices have increased about 300%, gold has risen more than 1,200%, but the cost of college has outpaced them both—skyrocketing more than 1,600% higher than it was in 1975.

Many young Americans are being crushed by school loan debts. While investing in yourself is usually wise, we must ask at what cost. Nearly 74% of first-generation students in the class of 2015-16 borrowed money for their undergraduate education. According to a study by the Consumer Federation of America (CFA), the average amount owed per federal student loan borrower stands at $34,000. That's up 62% over the last decade. The CFA also found that millions of people had not made a payment on $137 billion in federal student loans for at least 9 months in 2016, a 14% increase in defaults from a year earlier. The consumer watchdog (CFA) used the latest data from the Education Department, which manages $1.5 trillion in federal student debt owed by 42.4 million Americans. And the repayment of that debt is one of the factors stalling our economy.

The United States has the worst college dropout rate of any developed country. Around 54% of first-generation students don't complete their degree. First-generation, low-income students had a 6-year bachelor's degree completion rate of 21%. Students who are first-generation but not low-income still had a bachelor's degree completion rate of just 31%, according to data analyzed by the Pell Institute. Also consider that at most public universities, only 19% of full-time students earn a bachelor's degree in four years.

Sara Goldrick-Rab wrote a fantastic book called *Paying the Price: College Costs, Financial Aid, and the Betrayal of the American Dream*. Her thoroughly researched book examines the broken college financial aid system that, in many cases, has done more harm to students than good. She says:

> Despite its good intentions, our current financial aid system is failing today's students. When nearly 75% of American families find college unaffordable, and the means-tested financial aid system fails to do its job even for the poorest, it is time for a change.
>
> Financial Aid 1.0 today is a pale shadow of what its creators intended. Rather than supporting the hopes and dreams of people who seek to study and get ahead through higher education, it is punitive. It acts as an enticement to try college but then sets up students to face prices they cannot afford to meet year after year. It pits students against parents, financial aid administrators, and each other. It makes those who end up short of funds feel as if they've done something wrong. It is an invitation to debt.
>
> Student debt should not be at the center of this debate. Debt is the symptom, not the disease—the real problem is that college is unaffordable. Sixty percent of Americans aged 25 to 64 do not hold a college credential. But 22% of them—32.6 million Americans—have tried to get one. A year or two of college credits without a degree means not only wasted time but also significant debt.

> Ultimately, we have to build a new system—a Financial Aid 2.0 that is based on accessible and affordable high-quality public higher education.

What does all this mean? Most students enter college with the goal of earning a degree and boosting their prospects for a higher-paying job (dare I say *career*) after graduating. The reality is that most students are not finishing and are, instead, entering the work world with no degree and mounds of debt to deal with. Carrying massive debt—especially at a young age—severely limits your future opportunities such as buying a home or being able to afford to raise children.

Sound Familiar?

Have you noticed in the news lately there's been an inordinate number of stories regarding college students and mental health? *Time* magazine published a feature titled, "Depression on Campus: Record numbers of college students are seeking treatment for depression and anxiety. Schools can't keep up." Students are facing the reality that a college degree is both more necessary and more expensive today than ever before—resulting in health concerns that university systems are not adequately staffed to manage. Could the exorbitant amount of student loan debt be a contributing factor?

Student Loan Debt = Divorce

Who didn't see this coming? Over time, the stress of carrying debt, in this case student loan debt, takes a toll on relationships. According to a study by Student Loan Hero, a website for managing education debt, more than a third of borrowers said college loans and other money factors contributed to their divorce. In fact, 13% of divorcees blamed student loans, specifically, for ending their relationship.

Changing Lifestyles

This situation alone has transformed how the millennial generation is living life. Many of them have moved back home with their parents after graduation and are waiting much longer to buy a house, get married, and have kids—if at all. One might deduce that this trend means another depressed economy is seemingly inevitable. But don't despair: there is hope and there is help.

> ***Jason Says:*** *Unlike my wife and many others, I was fortunate to live at home and attend a commuter school. I worked 3 part-time jobs and paid my way through school and graduated without any debt. If this is not an option for you, you may qualify for scholarship or grant opportunities. There is a lot of money out there unknown to most people. Also, many on-campus jobs may provide you with a stipend and tuition waiver. Do your research!*

Credit Cards

Many people assume that credit card debt is the result of reckless spending and think that to get out of debt, people need to stop buying designer clothes and eating at 5-star restaurants. While this may be true for some, the reality is many people use credit cards to cover necessities when their income just doesn't cut it. This is the category my wife and I fell into. While in college pursuing an education degree, Amethyst was working as a student teacher. However, she was not earning an income and was using credit cards for daily living expenses. When I started my first job, I was making very little and swiped the plastic to supplement my bills. That's how easy it is to get into debt problems.

High debt isn't necessarily bad if it's justified by income. For example, if you have $25,000 in credit card debt, but earn $200,000 per year, it may not feel like a huge burden. On the other hand, if you have $5,000 in credit card debt but earn $28,000 per year, you may feel like you're drowning. Whenever you take out a loan or use a credit card, you're simply borrowing from your future income. So, the $1,000 or $100,000 you spend today will be taken from what you earn in the days or years to come.

Did You Know?

- Today, the average household with credit card debt owes a total balance of more than $16,000.
- About 72% of U.S. consumers report carrying a credit card.
- The average American household spends about $1,500 a year in credit card interest.

After reading all this, you might find it surprising to learn that more than 60% of households carry NO credit card debt, and of those that do, many pay it in full every month. Are you in the 60%?

> ***Jason Says:*** *I hate debt. I paid off and cut up all my credit cards except one. I still have a Discover Card, but I don't keep it in my wallet. I have it for an extreme emergency. I can't remember the last time I've used it.*

Car Ownership

Have you ever thought about the cost of owning a car? I'm willing to bet you will share in the same sticker shock I experienced upon researching the joys of automobile ownership. The average price of a new car in America tops $33,000, according to car-buying site Kelley Blue

Book. Purchasing a vehicle should not be done on a whim. It’s a major financial move—for many of us, one of the biggest we’ll make. While many consumers focus on sticker price or the monthly payment, they may overlook many other costs.

For an average vehicle that's driven 15,000 miles a year, all costs of ownership added up to nearly $9,000 a year, according to AAA's 2015 Your Driving Costs study. That's about $725 a month.

The real cost of owning and operating a vehicle includes:

- Fuel
- Tires
- Maintenance and repairs
- Taxes, license, and registration fees
- Insurance premiums
- Depreciation
- Interest/financing

3 pieces of advice when buying a car:

1) Never buy a new car. If you want a new car, you will save a ton by simply buying a year-old car. Any new car's value can drop between 15-20% the minute it is driven off the lot.
2) Never buy from a dealership. I did that once. Never again. I was astonished at all the junk fees they add on. Do yourself a favor and buy from a private seller. Autotrader is a great site for this. When you buy from a private seller you avoid paying thousands of dollars in sales tax along with many other added fees.

3) Research how costly routine maintenance and repairs will be for a vehicle you are interested in buying. Call a few local mechanics to get their take. You will be surprised to learn the extreme cost variations in maintaining different types of vehicles.

Jason Says: *Even though our cars are paid off, we still pay thousands for the privilege of owning them. If your city is conducive to walking and public transportation, I would highly encourage you to take advantage of it. Also, if you are in or planning on going to college, determine if you can live on or near campus without owning a car. Imagine the cost savings for just those four years. Ride sharing services like Uber and Lyft are an asset in this effort too.*

Dying with Debt

Have you ever wondered what happens to someone's debt after they've died? I know I have. It seems as if people are living their lives as if their debt is going to magically disappear once they're gone. Unfortunately, this is not the case. According to NerdWallet, your debts become the responsibility of your *estate* after you die. Your *estate* is everything you owned at the time of your death.

Here's how it works: The *executor* of your estate, the person responsible for dealing with your will and estate after your death, will use your assets to pay off your debts. This could mean writing checks from a bank account or selling property to get the money. In some cases, family members could even be on the hook for your debt. Many people buy life insurance not only to leave financial security behind for their loved ones, but also to help deal with any debt and final expenses.

estate → all the money and property owned by a particular person, especially at death.

executor → a person or institution appointed by a testator (person who made the will) to carry out the terms of their will.

probate → the legal process by which a decedent's will is processed by a special court.

The process of paying your bills and distributing what's left is called *probate*. Your appointed executor will use your assets to pay off your debts. Writing checks from a bank account or selling property to obtain the funding are common occurrences in this process. If there isn't enough to cover your debts, creditors are usually out of luck. However, specific types of debts can become other people's burden. The following could be someone else's headache after you die:

- **Mortgage –** (Yes) if there's a joint homeowner or if someone inherits the house. Federal law bars lenders from forcing a joint owner to pay off the mortgage immediately after the death of another co-owner. If there's no joint homeowner, the executor can pay the mortgage out of the estate. If there's not enough money in the estate, a family member who inherits the house can simply take over the mortgage payments.

- **Home equity loan –** (Yes) if someone inherits the house. A lender can force someone who inherits a home to repay the home equity loan immediately, which could require selling the house. However, lenders might work with new owners to let them simply take over the payments on the home equity loan.

- **Credit cards –** (Maybe) If the estate runs out of assets to pay credit card balances, credit card companies are out of luck because this debt is not secured by assets the way mortgages and car loans are. Any joint account holder would be responsible for the unpaid bills. People who are simply authorized users of a credit card are not responsible for paying the balance. In community property states, spouses are responsible for any debts incurred during the marriage, including credit card debt.

- **Car loan –** (Maybe) The executor can pay the car loan out of the estate. If payments stop, the lender can repossess the car. If the estate can't pay off the car loan, whoever inherits the vehicle can simply continue making payments and the lender is unlikely to take action.

- **Student loans –** (Maybe) The estate should pay off private student loan debt, but lenders have no recourse if the estate doesn't have assets to repay unsecured obligations such as student loans. Co-signers of private student loans will be responsible for remaining debt, and in community property states, the spouse will be responsible if the student loan debt was incurred during the marriage. Some lenders of private student loans will forgive the debt upon death, including Sallie Mae and Wells Fargo. Federal student loans are discharged upon your death. If a student's parent has a federal PLUS loan, it will be discharged upon the death of either the parent or student.

What Creditors Can't Take

In most cases, creditors can't go after your retirement accounts or life insurance benefits. Those will go to the named beneficiaries and aren't part of the probate process that settles your estate. Life insurance payouts are also protected from creditors. As a result, you can use a policy to protect family members who would be responsible for your debts or simply to make sure you have money to pass on. Additionally, life insurance payouts are usually not taxable.

Term life insurance policies, which provide a death benefit for a set number of years, are suitable for most people's needs and cost less than permanent life insurance. Also of note: If the life insurance beneficiaries you named are no longer living, your death benefit may go into your estate and be subject to creditors. That's why it's important to keep your beneficiary info updated.

Leaving Your Legacy

Knowing all this—what would you rather do: Leave assets to your heirs or a mess of debt for them to clean up?

The Best Laid Plans

Debt is a serious threat to your financial security because it keeps you from making the most of your money. What you spend on debt payments could be stashed away for emergencies, vacations, your retirement years, or your kids' college fund. Just look at my story. What if we didn't have to pay off nearly $75,000 of debt? What if I had that money sitting in my savings account right now? Would it change how I make decisions? Would it give me more options, opportunities, and freedoms in my life? You're darn right it would!

Once you become debt free, you'll be able to work toward becoming financially secure. Debt decreases your future standard of living by giving you less money to live on than what you have today. You can make the most of the income you expect to earn by taking healthy steps to become debt free.

Many plans to pay off debt fail because there's no real motivation behind them. You may start out fully motivated to become debt free, but you can easily become discouraged by the time and effort it takes to see your plan all the way through. If you want to keep momentum in your debt domination, continually remind yourself of the reasons you want to get out of debt:

1. How will paying off your outstanding bills benefit your life?
2. What can you do when you're debt free that you can't do now?

It will not be easy. I advise setting several small goals to build your confidence while still seeing the ultimate goal. Remember the exercise comparison. Baby steps. Even when you have the discipline to get out of debt, you have to remain disciplined to *stay* out of it. This is much like losing weight: once you've lost the weight, then you have to keep the pounds off. And just because you paid everything off doesn't mean your urge to spend has been removed.

To strengthen your confidence and build momentum, I advise you to begin tackling your smallest debts first. Perhaps you have a few retail store credit cards with a balance of under $500. Eliminate those immediately and, most importantly, stop using them.

Jason Says*: If you read the Bible, you may discover God hates debt. When you are enslaved by debt, it impacts your ability to be generous. You will not be able to give to people IN need because you've spent so much on stuff you DON'T need. Why would you live another day in that kind of bondage? Don't let your greed impact your ability to be generous.*

Reflection

There was a time in America when if you had debt, it was apparent things weren't going well for you. People avoided debt like the plague, and it is still this way in many other parts of the world. Today, there are several differing opinions about debt. Many people believe there is good debt and bad debt. You should never borrow money for an asset unless it's going to increase in value. Many people feel that a house (which appreciates) would qualify as good debt. However, I believe that a house is a money pit and strongly advise you to reread the section on page XX. Paying for school should be a good debt in that it's an investment in yourself which should pay dividends. However, a car is not a good investment, so I would advise paying cash for a good used vehicle if possible. If that's not feasible, save as much as you can upfront (half of the car's purchase price is a good goal), then work to pay off the remaining balance as quickly as you can.

Ultimately, there are two ways to upgrade your standard of living:

1. Save, invest, and work your way up.
2. Go into debt.

As Andy Stanley would say, "One system is fast, one system is slow. One brings peace, the other brings woe." Taking on debt to cover the gap between income and expenses is a short-term fix with costly long-term results.

Whew. OK, I hope this chapter was as depressing for you to read as it was for me to research and write. It's important to create awareness of this issue to help define the problem. Is your mind churning with ideas on how to begin eliminating your debt? I hope so. Let's start a revolution. Let's allow our generation and generations after us to live debt free. Are you with me?

Chapter 6

Creating a Budget

Sometimes, a budgeting problem is really just a matter of perspective. – Dave Ramsey

The road to financial freedom is simple and boring. Perhaps this is why nearly three-fourths of Americans do not live off a budget. The way we were raised and our personalities have helped shape how we view of money and manage our personal finances. Maybe this is the reason talking about money makes some people nervous and why talk of money is actually discouraged in many families. I'd be willing to bet that most parents don't discuss this topic with their kids—at least when their kids are young. But if there ever was an important subject to teach our children at home or in school, fiscal responsibility would be it.

Riches to Rags

If your strategy of getting out of debt and building a savings fund is to *make more money*, you're missing the core issue of the problem. The more money you have, the easier it is to be out of balance and stay out of balance. Any time we have *extra* we tend to be undisciplined with it.

While making more money certainly helps, changing your spending habits and your mindset about money is going to be more impactful.

Have you ever wondered why people who make more money are in more debt? I know I have. During my single years when I was digging my way out of debt, I constantly thought, *If only I made more money, then I could get out of this debt faster.*

Jason Says*: Money does not solve money problems.*

Case in Point: Professional athletes. *Sports Illustrated* recently estimated that 80% of retired NFL players go broke in their first three years out of the league. How is this possible in a sport rolling in revenue with an average salary of almost $2 million a year? High-powered sports agent Leigh Steinberg listed his top 5 reasons why NFL players go broke. See if you can detect a theme here:

1) **Lack of competent financial planning advice –** Athletes are no different than any other college grads in that they were not trained as undergrads in budgeting, the tax system, or long-term financial planning.
2) **Supporting a village –** Some athletes feel obliged to provide financial support to family, extended family, and friends.
3) **Divorce –** Often cited as the #1 challenge, divorce drains funds in legal fees and dissipates assets. The athlete ends up with half of what they earned and may have large alimony as well as child support payments.
4) **Lack of awareness of how rapidly a career can end –** The athlete forgets that the current rate of compensation is not going to last and can be terminated by injury or skill at any point. Spending habits assume the revenue will be coming forever.

5) **Lack of preparation for second career –** NFL players have long off seasons they can use to lay the foundations for their lives after football. Some athletes do not give it a thought and end up missing the structure and direction that football has given them.

There's much to learn here. The theme I see is *education*. If you can apply the principles shared in this book, you will avoid landing in undesirable financial pitfalls.

Developing a Plan

First, you need to find out where your money's going. Every dollar must be assigned a name. Write down every recurring expense you have. It's easier to start this process with pen and paper before progressing to any highly sophisticated budgeting software—which will be covered later. One way to start would be to log on to your online checking account and print out your previous month's statement. Another option is to save all your receipts for a month, then tally them up at the end of the month—although this could be a tad tedious. Highlight all the standard monthly expenses—mortgage/rent, utilities, etc. Then start looking at other expenses like eating out and grocery shopping. You may want to go back three months to help develop a good base average. Below is a visual to show you how simple it is and to give you an idea of standard expenses to track. If you'd like, you can use a Word or Excel document:

Mortgage/Rent	$1,000
HOA Dues	$250
Groceries	$500
Auto Fuel	$150
Dining Out	$150

Auto/Life/Home Insurance	$200
Cable TV & Internet	$150
Netflix	$10
Cell Phone	$80
Electricity	$100
Gas	$60
Chiropractor	$50
Gym Membership	$50
Tithe/Giving/Charity	$250
Other Expenses	$100
TOTAL EXPENSES	**$3,100**

If you were bringing in an income of $4,000 a month from the example above, you'd have a margin of $900. This would give you extra money to disperse into debt payments and build your savings. However, if your income was $2,500 you would have no margin and be in the hole -$600. This is how most of us pile up debt. We reach for the credit card before even thinking about cutting expenses and (GASP) downgrading our lifestyles. The wiser decision would be to examine your expenses to determine what you can live without.

Determining your recurring expenses should be the easy part; it's the unplanned ones that cause trouble. It's impossible to predict your car is not going to start and need a new $200 battery. As a result, I have added an *Other Expenses* line. This is arguably the most important line item in your budget sheet, and without noting it you'll end up paying for it. I suggest plugging in a number you can manage. After several months of tracking your spending, you can go back to calculate an average.

For your flexible expenses, I suggest adding an *Actual Amount* line on your budget sheet, as seen below. There will always be ebb and flow with these types of expenses, and tracking the actual amounts will give you pertinent data to make informed decisions about what adjustments need to be made. As you can see from my sample, I was $175 over budget and thus needed to focus on cutting down my food bills.

EXPENSE	**BUDGET**	**ACTUAL AMOUNT**
Auto fuel	$150	$110
Dining Out	$150	$220
Groceries	$500	$620
Giving	$250	$200
Other Expenses	$100	$175
TOTALS	**$1,150**	**$1,325**

Jason Says: *Another tip to create margin is to overbudget. For example, round up your expense numbers. Let's say your rent is $775 a month. Round it up to $800. By rounding up your numbers each month, it will create some wiggle room and a huge margin for you in the long run!*

Determining Income

For those who earn a set salary, adding those numbers into a budget is easy. Others who live off bonuses or commissions, or who work part time with a different set of hours each week, are faced with more of a challenge. My advice is to reflect back on the previous three months in an effort to determine an average. This will give you a solid base to input an average earned income to start your new budget.

> ***Jason Says:*** *The most important thing to remember about budgeting is that it must be reviewed often. You will be making constant modifications due to increased or decreased income and expenses, etc. Life is always changing, and you must adapt and adjust your budget accordingly. For example, if you just had a baby—time for a whole new kind of budget!*

Budgeting Tools

Thankfully, we live in the Technology Age. There are dozens of outstanding software programs and apps available to help us successfully budget—so there should be no excuse! I have provided a list of my favorites in the Resources section beginning on page XXX. I use Quicken because it syncs to our online bank account and transfers the data. The previous budgeting software I used required me to manually input each transaction—think checkbook register. Imagine the hours I saved just by having the syncing ability with Quicken. I also love all the different types of reports Quicken provides. At the end of each year, I can generate a cash inflow and outflow report and compare it to reports of years past. I look for trends to determine what area may need adjusting. My wife is still old school and budgets using pen and paper, but she has also used a spending tracker app on her phone. There are many resources out there. Do your own research to determine what works best for you.

> ***Jason Says****: The problem is not finding the tools or creating a plan. It's having the discipline to do it.*

Flipping the Script

I want to challenge you to think differently about your finances. Start making financial goals every year by determining these three steps: 1) how much to give away; 2) how much to save; and 3) how to pay off and stay out of debt. There are essentially 5 things you can do with your money, and we generally do them in this order:

1. Spend
2. Repay Debt
3. Pay Taxes
4. Save
5. Give

It's time to systematically change the way you view money. When you begin to reorder and reprioritize your finances, you will have more money. This will require you to examine your heart and change your priorities. Although this shift may be difficult at first, by thinking more of others (giving) and your future (saving) and less of immediate gratification you will start to realize how little money you actually need to live. Think about charities or causes you are passionate about. Do you have a church you love to attend? When you realize all the need around you it will change your mindset. When my wife and I got involved in charities that support childhood cancer research, it softened our hearts and we willingly volunteer our time and donate what money we can. Additionally, we tithe regularly to our church and try to save at least 20% of our income. When you focus on giving and saving first, you will start to see a change in any frivolous spending you might have previously participated in.

I challenge you to flip your list. Give first, save second, and live off the rest. You probably won't be able to live the same lifestyle you are currently living, but that's okay.

What if you prioritized your budget like this:

1. Give
2. Save
3. Spend (live on the rest)

Jason Says: *Most people think they are more generous than they are. The average American gives away 2%. What percentage of your income do you give away?*

Living Off Percentages

To maximize your margin, you must start living by percentages. We are all living off a percentage of our incomes, and most of us don't know what it is. If you don't choose what percentage of your income you live on, someone else will choose if for you. For example, many experts suggest that you should not pay more than 30% of your salary (before taxes) for housing.

For your overall budget, the most common dispersal is the 80-10-10—which is spend 80%, save 10%, and give 10%. Another option to consider is 60-20-20 or 70-15-15. I would highly recommend you make an effort to save at least 15% of your income. If you work for a company that offers a 401(k)-type retirement plan, take full advantage of it. Paying into a 401(k) could be included in the 15%, but you also want to have an emergency saving account that you can access without the penalties a long-term retirement plan would ding you with. After writing down your budget, you will have a clearer idea of what percentage plan works best for you.

Jason Says*: If you really want to create margin, try living off 50% of what you earn.*

Reflection

If you think being smart enough to make money translates to being smart enough to manage money, nothing could be further from the truth. By not exercising self-control, you are giving up control to someone else. Because we have bought the lie that we deserve more—a certain lifestyle level—it leads to a lack of self-control. But when we are in debt, our finances are controlled by outside influences. And this situation is due to a lack of self-control. Why would you do that? Why would you give up your freedom?

Make the decision to change your mindset about money, and your behavior regarding spending. It could be the most important decision of your life.

Chapter 7

Saving Money

Most of us don't know what we ***really*** *want because we are distracted by what we want. –* Andy Stanley

In 1975, the savings rate in the United States reached an all-time high of 17% (*U.S. Bureau of Economic Analysis*). It plummeted to a record low of 1.9% in 2005. My, how our priorities have changed in just 30 years! Today, the personal saving rate is 5.7%. This means out of every $100 in after-tax income, approximately $5.70 is being saved for things like retirement and emergency expenses.

Gone are the days when people would say, *If you deposited a million dollars in the bank, you could live off the interest for the rest of your life.* According to GOBankingRates, in 2018, the average savings account has a measly 0.08% interest rate, and many of the nation's biggest banks pay rates as low as 0.01%. If you're lucky, you might find some accounts paying yields in the 1-2% range.

Inside the Mind of a Billionaire

Mark Cuban is a self-made billionaire who comes from a humble beginning. He knows what it's like to eat mustard and ketchup sandwiches and sleep on the floor of a 3-bedroom apartment that he shared with 5 of his friends. On October 4, 2008, Cuban published a blog titled *How to Get Rich* and discussed his thoughts on saving, debt, and the use of credit cards. He says:

> Save your money. Save as much money as you possibly can. Every penny you can. Instead of coffee, drink water. Instead of going to McDonald's, eat Mac and Cheese. Cut up your credit cards. **If you use a credit card, you don't want to be rich**. The first step to getting rich, requires discipline. If you really want to be rich, you need to find the discipline, can you?
>
> If you can, you will quickly find that the greatest rate of return you will earn is on your own personal spending. Being a smart shopper is the first step to getting rich. Yeah, you have to give things up and that doesn't work for everyone, particularly if you have a family. That is reality. But whatever you can save, save it. As much as you possibly can.
>
> The first step to getting rich is having cash available. You aren't saving for retirement. You are saving for the moment you need cash. Cash is king for those wanting to get rich.

Cuban's hardline stance against credit cards is refreshing. The use of credit cards is a common debate. Many people will justify the use by claiming all the benefits (points, cash back, discounts) but the reality is that most are not "disciplined" to manage their card spending wisely. Additionally, Cuban's thoughts of having cash on hand makes sense in that it creates more options that you may not have previously had.

***Jason Says**: Be wary of taking financial advice from a broke person.*

Emergency Funds are for Emergencies

I would highly encourage you to immediately save $1,000 as an emergency fund to jumpstart the process of becoming financially fit. Do this before you pay off any debt. Considering 66 million Americans have no money saved, and 73% have less than $1,000 in the bank, once you have accomplished this, you will be ahead of the game! Additionally, experts like Dave Ramsey will tell you to have 3-to-6 months of living expenses saved. Establishing an emergency fund is a great goal—obviously the more you have the better. However, start first with the $1,000, and then refocus on crushing your debt.

Expect the Unexpected

Life is what happens when you're busy making other plans. We must account for the unpredictability of life, which makes having a savings account even more vital.

Case in Point: Two days before my wife gave birth to our first child, we had a gas line break at our house. We immediately hired a plumbing crew for the repairs. The next day, our hot water heater went out. I called the same plumbing team back out to replace it. In the blink of an eye, we were staring at $4,000 worth of *emergency* repairs. Fortunately, we had built up enough savings to cover the cost, but it was still a huge hit. Unfortunately, most people are not in a position to do this and are forced to use credit. Unforeseen events like this are a real-life example of how easy it is to get swamped with debt and how difficult it is to stay out of it.

On the other side of the coin, buying an 80-inch flat screen television does not qualify as an *emergency*. Once again, this is where your change in mindset and behavior modification is going to come into play. Remember, misidentifying an emergency may lead to an actual emergency down the road.

I Can't Save

You're probably saying to yourself, *I don't make enough money to save*. If that's true, you need to reexamine your expenses and determine what cuts to make. Here are some ideas:

- **Cable** → Do you really need to pay $100 a month for 300 channels you never watch? Cutting your cable could easily save you $1,200 a year, or more. Explore cheaper alternatives like Netflix (basic plan $7.99 a month) and a HDTV antenna (provides local channels for free).
- **Gym** → The majority of the people I know are non-attending fitness club members. With the average membership rate at $50 a month, you could save $600 annually by doing pushups at home and jogging at the park.
- **Eating Lunch Out** → If you're used to eating out on most workdays, you may be paying $7 for a sandwich and $3 for a drink, for a total of around $10 per day. That can seem harmless enough, but it adds up quickly. That's $50 per work week and can total $2,500 or more per year.
- **Eating Dinner Out** → This is a challenge for all of us. What if you went out to eat just 2 less times per month? At $25 a meal, that would also save you $600 a year.
- **Groceries** → The #1 rule of grocery shopping is to have a list and stick to it. Showing up with a mental list is a recipe for disaster. Figuring out a way to cut just $25 a month in groceries will save you $300 a year.

- **Smoking →** Quitting smoking can save you more than $2,700 a year if you smoke a $7.50 pack a day.
- **Insurance →** You might save $1,000 or more over a year simply by calling around and finding a cheaper car and/or home insurance policy.

You see how all this adds up? The 7 ideas listed above total $8,900 a year. Do that for 5 years and you've saved $44,500! Are you starting to see the big picture now?

Jason Says*: My friend Duke loves Jersey Mike's Subs. In fact, he eats there every day for lunch. While their subs are great, they also aren't cheap. On average, a sub meal can cost about $15. There are 261 work days in a year, which means Duke would have shelled out $3,915 for lunch alone. What if Duke decided to pack his lunch instead?*

Earn Extra Cash to Boost Your Margin

Most financial experts recommend generating multiple sources of income—and if you can create *passive income*, even better. A perfect example of passive income would be if you rented out an extra room in your house.

passive income → earnings an individual derives from a rental property, limited partnership, or other enterprise in which he or she is not materially involved. As with non-passive income, passive income is usually taxable; however, it is often treated differently by the Internal Revenue Service (IRS).

If you have the opportunity to do this, it will help you reach your financial goals much quicker. Believe it or not, there is a ton of money out there waiting to be earned—you just need to find it. About 10 years ago, I began selling items on eBay and Craigslist and haven't stopped since. Another option is doing marketing surveys I previously discussed. Part-time or freelance work options are always a good route to earn extra. Below are a few of my favorite sites to find part-time work:

- Snagajob.com
- Indeed.com
- Craigslist.com

> ***Jason Says****: Unless you win the lottery or are expecting a large inheritance, you're going to have to work and budget wisely to get yourself financially healthy. In the end, it will be well worth it.*

Couponing

While she is no *extreme couponer*, my wife has become quite savvy with couponing when it relates to grocery shopping. Investing no more than 1 hour per week, she saves an average 10-20% on our grocery bill by using online, paper, and *Ibotta* coupons. *Ibotta* is a free mobile coupon and cash back shopping app. It gives shoppers the opportunity to earn cash back on select products by performing easy tasks, purchasing the product, then providing proof of purchase. My wife started using the app in June 2016 and has earned a total of $665. The money is deposited in your PayPal account. You can learn more at ibotta.com.

> ***Jason Says****: Couponing isn't for everyone. It can be a tedious process. Try it out and determine if it's worth your time. If you can save $20 a month, look at the bigger picture of it being $240 a year!*

Reflection

Most experts recommend saving at least 10-15% of your income in order to be financially well-prepared for what life is going to throw at you. Of course, the more you can save, the better in the long run because your car will break down and your house will need repairs.

After you've written down your budget, you might be pleasantly surprised at all the ways you can save money. Carefully think about each expense and determine what you can live without. The savings will add up quickly, and then you can take that extra money and use it toward debt or building your emergency fund. If I can do it, you can do it!

Jason Says*: According to Dave Ramsey, if you have no debt except a mortgage, and $15,000 in the bank, you are in the top 5% of Americans.*