Quick and Dirty Tips

Money Girl's Smart Moves to Grow Rich

A Proven Plan for Taking Charge of Your Finances

LAURA D. ADAMS

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Creating a Financial Plan

Map out your future, but do it in pencil.
—JON BON JOVI, musician

Now that we've talked about why we might be overspending and not doing a great job managing our money, let's take the first step toward changing that. Improving your financial health is not something that happens overnight, and before you can begin to make changes you have to figure out the following:

1. what your financial situation is today,
2. what you'd like your current and future financial situation to be, and
3. what needs to be done to fill the gap between the two.

If you don't know how to answer those questions, don't worry! That's what I'm here to help you with. Let's start by getting a grasp on your current financial situation. That can be frightening for many people, because they don't like their situation or don't want to face it. However, embracing reality makes you better able to make positive changes. Let's start off by creating an important tool that you can use throughout your life to help you gauge your level of financial fitness. Then you'll learn how to set important financial goals and get into the nitty-gritty about how to really make them happen.

KNOW YOUR NET WORTH

The tool I'd like you to create is called a Personal Financial Statement, or PFS. Everyone should create and update their PFS on a regular basis, annually or even quarterly. It's the best way to get a complete view of your current financial situation and should be your periodic "reality check"—something like stepping on the scale if you're watching your weight. Each time you update your PFS, the purpose is to recalculate your net worth, which tells you a great deal about your overall financial health.

The definition of net worth is summed up in a very simple formula:

Net Worth = Assets – Liabilities

When you subtract your total liabilities from your total assets, you have calculated your net worth. It's really that simple! If you own $350,000 in assets, but have $325,000 in debts, your net worth is $25,000. Net worth is an important number because it reveals your bona fide financial resources at a given point in time. Tracking your net worth keeps you focused on increasing your assets and shrinking your liabilities.

Since everyone's financial situation is unique, there's not a magic net worth number that you should have. The Federal Reserve (federalreserve.gov) keeps track of the net worth of U.S. families in the Survey of Consumer Finances that's published every three years. The most current survey shows that the net worth of all families steadily increased from 2004 to 2007. In 2007, the median net worth of all families was $120,300 (that's the number in the very middle of the data) and the average was $556,300. However, we know that the recession and the general decline in the housing market caused net worth to fall from the figures reported for 2007. When your net worth increases, pat yourself on

> Here's a quick and dirty tip: Use this formula as a very rough guideline for your target net worth: [Your age - 25] × [Gross annual income ÷ 5].

the back and know that you're making the right financial decisions.

Calculate Assets and Liabilities

In order to figure out your net worth you must calculate your assets and liabilities. Assets are what you own that have real value, such as cash accounts, stocks, bonds, real estate, vehicles, personal belongings, and money owed to you. Your liabilities, on the other hand, are the opposite of your assets. Liabilities are your financial obligations to others. They could include a mortgage, a car note, a credit card debt, or the $50 you owe your neighbor for losing a bet. Your net worth reveals what you'd have left over if you liquidated all of your assets and paid off all your debts today. You probably wouldn't really do that unless you decided to join a Buddhist monastery, but it's an important financial exercise nonetheless. If you owe more than you own, your net worth will be a negative number. If that's your situation, don't let it upset you too much. Many people, young and old, are in the position of having a negative net worth. Your net worth has nothing to do with your personal worth as a human being—never forget that. But knowing your net worth will help you understand what you need to accomplish to meet your financial goals and dreams.

In addition to calculating your net worth, a good PFS will also contain everything that loved ones would need in the event of your death. One of the best gifts you can give to those you leave behind are organized personal finances. You may want to give a copy of your PFS to your children, parents, or any other close family members who might need access to detailed information about your financial accounts and insurance policies. I like to keep an updated copy of my PFS in a safe-deposit box at a local bank. It's also a useful document to have when applying for credit or loans. But I encourage you to create it and maintain it primarily for yourself and your family. See the sample PFS that I've included—you can also download this document from the Money Girl Web site at http://moneygirl.quickanddirtytips.com under the Recommended Reading sidebar. You may have more or less information to enter, but your goal should be

Here's a quick and dirty tip: Use a spreadsheet format such as an Excel file or a free Google Doc at docs.google.com to create your PFS.

to create a complete and accurate record of all your assets and liabilities. Once created, it should be an evergreen document that you save and update on a regular basis, at least once a year.

To create your PFS, you can use the sample here as a guide or you can list your assets on a blank page or spreadsheet. To the right of each asset, list its estimated value. Try to get as close as you can to an accurate value; you can always revise your estimated valuations at a later time. For now, catalog your possessions and accounts that have monetary value.

Instead of taking a lot of time to list many smaller assets individually, try lumping them together in categories. Include a ballpark estimate for the value of your furniture, antiques, artwork, and collectibles, for example, under a category called "household possessions." Include computers and televisions under an "electronics" category. The idea is to consider what you own that would have real value if you sold it today. Remember that the market value of most tangible assets is usually lower than their replacement value. For example, if you paid $2,000 for your five-year-old computer, you probably could never sell it today for $2,000. So it's best to be conservative with your asset valuations.

For your larger assets like real estate, vehicles, boats, financial securities, or precious metals, spend some time researching their values so you can be as accurate as possible. Kelley Blue Book, at kbb.com, is the best way to find valuations for vehicles. Utilize sites like ebay.com and craigslist.com to find prices for assets like sporting equipment or high-end tools. Get the value of your stocks or mutual fund shares from your last account statement or from a brokerage Web site such as etrade.com or scottrade.com.

A Web site that can help you with your real estate valuations is Zillow.com. Zillow.com creates estimates from data available in the public records, but it admittedly doesn't take everything into consideration such as local market conditions or special features of a

SAMPLE PERSONAL FINANCIAL STATEMENT

ASSETS

Cash on Hand	$ 200
Cash in Checking Accounts	$ 500
Cash in Savings Accounts	$ 1,000
Cash in Money Market Accounts	$ 15,000
Cash in Certificates of Deposit	
Value of Investments (stocks, bonds, mutual funds, ETFs)	
Value of Workplace Retirement Accounts	$ 10,000
Value of IRA Accounts	$ 2,000
Cash Value of Life Insurance	
Surrender Value of Annuities	
Other Investments	
Value of Precious Metals	
Estimated Market Value of Real Estate	$ 300,000
Estimated Value of Vehicles	$ 10,000
Estimated Value of Collectibles	
Estimated Value of Household Items (furniture, sporting equipment, tools)	$ 1,000
Estimated Value of Electronics	$ 500
Estimated Value of Jewelry & Furs	$ 2,000
Money Owed to You	
Other Assets	
TOTAL ASSETS	**$ 342,200**

LIABILITIES

Balance Owed on Mortgages	$ 275,000
Balance Owed on Auto Loans	$ 3,500
Balance Owed on Student Loans	$ 12,000
Balance Owned on Other Loans	
Balance on Home Equity Line	
Balance on Credit Cards	$ 2,000
Balance on Other Credit Lines	
Outstanding Bills	
TOTAL LIABILITIES	**$ 292,500**

TO CALCULATE YOUR NET WORTH:

TOTAL ASSETS	$ 342,200
LESS TOTAL LIABILITIES	$ 292,500
= NET WORTH	**$ 49,700**

GET ONLINE TO GET ORGANIZED

Online tools, such as itaggit.com, can help you get your personal possessions cataloged, organized, and valued. Itaggit has a valuation tool that helps you establish the current market value of an item. Enter your possessions into itaggit.com from an iPhone application, import data from a spreadsheet, add pictures, or export items directly to online marketplaces such as ebay.com and craigslist.com. Itaggit.com even offers valuation reports for estate planning and tax purposes.

property. If you really want to hone in on the market value of your property, it's best to hire a licensed real estate appraiser to do a thorough analysis. But Zillow.com may be a good starting point for your PFS. If you have some expensive jewelry, that's another asset for which you may want the opinion of a qualified appraiser or gemologist. Once you've got all your assets accounted for, create a "total assets" row, perhaps with a cell formula that adds up each individual asset category.

Follow this same procedure for adding your liabilities to your Personal Financial Statement. There are two different types of debt that most people have: installment loans and revolving lines of credit. Installment loans—like mortgages—have specific conditions that must be met until the borrower pays off the full amount. Installment loans are usually secured by an asset, such as real estate or a vehicle, and have an interest rate (either fixed or variable) and a term that specifies the future payoff date. Installment loans are very different from revolving lines of credit. With credit lines, like credit cards and home equity lines of credit (HELOCs), the financial institution agrees to give you a maximum loan amount. If you choose to use any part of the money, you're charged an annual percentage rate (APR) each month on the balance that you carry forward. The interest you owe each month is the minimum payment that you can make without incurring additional interest and late fees.

Enter your current balances for all loans, lines of credit, credit cards, and any notes that you have in your PFS. Also include the rate of interest charged on each debt as well as the maturity or payoff date of your installment loans. You may be able to get the information by viewing your accounts online. If not, refer back to your most recent account statement or call the creditor for any missing information. Then create a "total liabilities" row, to see the grand total of all your debts. At the bottom of your PFS create a "net worth" row that shows the result of subtracting your total liabilities from your total assets. If you have a lot of debt, this number will likely be negative. Don't get too upset. The point of calculating your net worth is to use the information to help you create a smart plan to improve your finances. The goal is to slowly raise your net worth each year. In chapter 4, which is about money management systems, I'll give you some recommended tools that can help you calculate and monitor your net worth online.

CREATE A FINANCIAL PLAN

Now that you know your net worth, it's time to create a financial plan. Why is a financial plan important? Think of it this way: If you were building a new home, would you pour a concrete foundation before having finalized your house plan? That would be extremely risky and probably leave you with some major design flaws and regrets. Creating a financial plan is just like having a detailed house plan—it shows what you intend to create with your money. It's part of the process of identifying your goals and determining how you're going to manage your money to achieve them. Financial planning may seem boring, but you just have to hunker down and do it if you want to make the smart moves necessary to live a financially secure life. It's possible to get lucky and end up having enough money to reach goals like buying a home or retiring, by chance. But I wouldn't count on it!

Financial planning doesn't have to take a long time or be complex. You don't have to be a financial whiz or have a high-paying job in order to achieve your financial goals. Simply reflect on the big picture of your life. What financial and nonfinancial dreams do you have? A useful exercise is to imagine your life five years from now. Consider where you're living and how you spend your time. In five years, what would you be proud to say that you had accomplished between now and then? Stretch your imagination out further and do the same for your life in ten or twenty years. Then imagine you're on your deathbed with just a few hours left to live. What accomplishments would make you feel good about yourself even in your final hours? These questions can give you important information about yourself and inspire you to begin planning for what truly matters to you. In this chapter we'll discuss how to identify all your financial goals, big and small, so that you know what you're working toward. Then the rest of the book will help you achieve these goals.

How to Set Your Goals

There are three different types of goals to consider when you're doing financial planning: short-term, medium-term, and long-term.

1. **Short-term goals** are those you want to achieve within a year. They could be saving for a vacation, maxing out a retirement account, or buying a new mountain bike, for example. One of the most important and very first short-term goals that I recommend you achieve is to establish an emergency fund. This goal trumps all others and I'll explain why coming up.

2. **Medium-term goals** are those you want to accomplish in the range of one to five years in the future. For many, a year isn't enough time to save up an adequate emergency fund and so that goal might be one of your medium-term goals. Other examples of medium-term goals that you may have in mind are making a down payment on a home, starting your own business, buying a new car, or saving for your children's education.

3. **Long-term goals** are, of course, those you want to achieve beyond five years into the future. The granddaddy of all long-term goals is saving for retirement. I'll give you the basics on how to do that in this chapter. If your kids are young, saving for their education may play into your long-term plans. There are special types of

tax-advantaged accounts that are sponsored by the government to help boost both our retirement and education savings that we'll cover in future chapters.

GOAL #1: AN EMERGENCY FUND

As I mentioned, having an emergency fund should definitely be one of your first financial goals. You could get into real trouble without one. None of us knows what the future holds when it comes to our income, our economy, or our health. It's vital that we hope for the best, but plan for the worst. If you lose a portion or all of your income, you still have living expenses to pay. Unemployment benefits can help you survive a layoff, but that income is only temporary and isn't likely to cover all your expenses.

So, how much emergency money is really enough? Unfortunately, I can't tell you exactly how much you need. The answer varies depending on your personal situation. I recommend that your initial goal is to save six months' worth of living expenses, whether you're single or married. If that sounds completely unrealistic, don't get discouraged—start smaller, with three months or even one month as your goal. If your living expenses amount to $40,000 a year, for example, you could decide to accumulate $20,000 over a three-year period. If you have a savings account that earns 1.5 percent interest, you'd reach your goal by saving $543 a month or $125 a week. At the end of this chapter I'll give you tips for how to save money faster.

Now this is important: The money in your emergency fund should be in addition to what you may already have saved in other accounts such as an Individual Retirement Arrangement (IRA) or a plan at your work, like a 401(k). It's best not to consider money in your retirement accounts as part of your emergency fund. Ideally, you would never have to dip into your retirement funds, even in an emergency situation. Your reserve fund needs to be very accessible so it's best to keep it in cash in an FDIC-insured bank account such as a high-yield savings or money market deposit account. I'll give you much more information about banking accounts in the next chapter.

You can also keep a portion of your emergency money in a safe place in your home. Call me alarmist, but there are catastrophic situations where you might need cash on hand to survive. If widespread power outage or flooding should cause your bank or Internet access to shut down temporarily, for example, you'd be grateful to have some cash stashed at home. Withdrawing money from ATMs (automatic teller machines) could also be problematic in certain situations. If you live in a rural area, your isolation should prompt you to err on the side of caution when it comes to accessing your emergency money. Once you have your reserve fund in place, the security it will give you is amazing!

When You Might Need Extra Savings

Once you have six months' worth of living expenses saved, consider whether you need more. Replacing lost income can take longer than you think it will, depending on your industry, skills, and experience. Whether you have emergency money or not can make the difference between staying afloat financially or sinking into further trouble. Here are some situations that should prompt you to have more than a six-month emergency fund on hand:

- You're married, but only one spouse works
- You live in an older home that could need emergency maintenance
- You have older household appliances that may need to be replaced
- You drive an older car that could need unexpected repairs
- You have high insurance deductibles for health, homeowners, or auto policies
- Your job, industry, or business experiences a downturn
- You plan to purchase a home
- You plan to have children or to adopt
- You have inadequate homeowner's insurance due to living in an area prone to natural disasters or flooding
- You have family members who may become dependent on you

MAKE HAVING INSURANCE A GOAL

An important aspect of being prepared for an emergency is being adequately insured. Many people get into debt because they don't have enough of the right kinds of insurance (or they don't have any insurance at all). As your personal finances improve and your career progresses, it's likely that you'll have more assets and income to protect from unexpected events. Without adequate insurance, a catastrophic event could wipe out everything you've worked so hard to earn. It's not pleasant to think about what bad things could happen, and maybe that's why so many people are underinsured. Part of taking control of your finances is being prepared to deal with situations that may put a drain on your finances. These following seven types of insurance will help you protect yourself and those you love from something unexpected jeopardizing your financial security and happiness:

1. **Health insurance** is a critical insurance to have. Without it you risk being stuck with a large bill if you have any kind of medical issue from the flu to a broken bone. Even a quick emergency room visit or a basic hospital bill can cost thousands of dollars. Starting in 2014, health care reform will penalize uninsured adults who don't have a valid exemption, such as low income. If you don't have the option to purchase health insurance at work, or if you're self-employed, shop rates at ehealthinsurance.com. Also, don't assume that a workplace option is the best one for you. Review it in light of your family's situation. In some cases it could be better to take a group policy for yourself but to insure your dependents separately, for example. You can shop for health insurance just like any other type of insurance. Compare policies by reviewing all the features and terms carefully. You may opt for a high-deductible health plan that has lower premiums and offers the unique ability to save money for future qualified medical expenses in a tax-advantaged health savings account or HSA. Visit the U.S. Department of Treasury Web site at treas.gov for more information about HSAs.

2. Disability insurance provides replacement income if you're unable to work due to a disability, illness, or accident. Remember that health insurance only addresses your medical bills; it doesn't pay your living expenses, like housing or food, if you can't earn money for an extended period of time. Disability insurance may seem like something you can do without, but I recommend having it unless you've built up a very healthy emergency fund. According to information on insure.com, you have a one-in-five chance of becoming disabled during your working years. You're more likely to suffer a disability than you are to die before the age of sixty-five! And when a long-term disability occurs, the average absence from work is two and a half years. That could cause a major financial strain for you or family members who depend on your income. If you don't have the option to purchase a disability policy at work (or if you do but it's not sufficient), purchase a private policy for yourself and have enough emergency money set aside to tide you over until coverage begins. Shop around at sites like disabilityquotes .com and metlife.com to get as much coverage as you can afford. There's a Disability Calculator on the MetLife site that may be helpful.

3. Life insurance is critical when your death would create a financial hardship for those you leave behind, such as a spouse or children. If you're single, or no one depends on your income, you either need a very small policy for your funeral expenses or none at all. If you have a stay-at-home spouse who cares for your children, you probably also need an adequate policy on their life to cover future child care costs. I don't recommend buying life insurance on children, because they're the ones meant to benefit from insurance proceeds. You can add a small rider to your own policy for the funeral costs of a child.

There are two basic kinds of life insurance: term and cash-value:

- **Term insurance** provides a benefit upon the death of the policy owner for a set period of time such as ten or twenty years.
- **Cash-value insurance** provides a death benefit and an investment

all wrapped up in one product. They're also called permanent life policies because you get lifetime coverage.

I prefer term insurance because it's inexpensive and provides the most death benefit for the dollar. Buying life insurance purely for investment purposes (to create a profit) defeats its purpose. As I mentioned, the reason to buy life insurance is to protect against a potential loss, not to make a gain. In most cases if you invest money in a low-cost mutual fund, instead of paying it to a life insurance company as a policy premium, you'd come out ahead.

A good rule of thumb is to purchase a policy that's ten times your income. So if you make $50,000, you might need a policy that would pay your beneficiary $500,000. But factors like the number of children you have, education expenses, mortgage payments, and the lifetime income needs of a surviving partner or spouse should come into play. If you don't have life insurance through work, or if you do but it isn't enough, take a look at the Insurance Calculators at bankrate.com to see what type of life insurance may be best for you and how much you need.

4. Auto insurance is required by most states. It's a collection of policies that protect you against financial loss. Find out the minimum requirement for your state at carinsurance.com. Rates vary depending on the kind of vehicle you have and your driving record. Choosing higher deductibles will lower your monthly premiums. You can shop auto insurance at sites like insweb.com, esurance.com, or carinsurance.com.

5. Homeowners insurance is important to protect the replacement value of your home and its contents. It's a requirement when you have a mortgage. Basic home insurance compensates you for damage to your property or contents from certain types of natural disasters, fires, and theft, for instance. You can add a rider for damage to or loss of specific expensive items like jewelry or artwork. There's also a liability portion that covers you if someone gets hurt while they're on your property. Renters also need renters insurance to cover their belongings in the event of fire or theft, for instance.

You can compare rates for these policies at homeinsurance.com or geico.com.

6. Long-term care insurance is a special type of insurance that covers many of the services you may need if you have a prolonged illness or disability that keeps you from caring for yourself on a day-to-day basis. Don't confuse it with disability insurance, which only replaces lost income. Many people mistakenly believe that they're entitled to long-term care services from their health insurance, Medicare, or Medicaid. Unfortunately, the majority of health insurance policies don't cover any long-term health care expenses. Medicare is available once you reach age sixty-five (or younger if you have certain disabilities). The requirements to qualify for Medicare are strict, and it provides medical and home health care for a limited period of time only. Find out more at medicare.gov. Medicaid is a state-administered program that may foot the bill for nursing home expenses when you have very little income and minimal financial assets. A good resource to learn more about these public programs is at the Centers for Medicare and Medicaid Web site at cms.hhs.gov.

Long-term care insurance is typically recommended for those in their fifties, but the potential for needing long-term care really exists at any age. But the older you are when you buy it, the more costly it'll be. For example, premiums can cost twice as much at age seventy than they would have at age sixty. And besides having a higher price tag, waiting to apply could result in being turned down for coverage if you're not in good health. However, buying long-term care insurance when you're younger may not be the best choice, either, because you could end up paying less-expensive premiums for a longer period of time before getting benefits, if ever. To get an idea of these costs, visit Web sites that offer free insurance quotes such as freeltcquotes.com.

7. Umbrella liability insurance may be needed as you build wealth and need additional protection. It acts like an "umbrella" that covers your underlying polices and gives you broad protection from losses above the limits of your other policies such as homeowners or auto insurance.

Having enough of the right kinds of insurance is important. Insurance won't help you build your wealth, but it certainly will help you protect it. You don't want to work so hard to buy your dream house, or save for the kind of retirement you dream of, only to lose it all with one unexpected event. If you don't already have insurance coverage, I recommend adding it to your list of goals. Review your insurance needs each year and consult with a licensed insurance professional for more information.

PLANNING FOR RETIREMENT

I said that saving for retirement is the granddaddy of all long-term goals. That's because a financially secure retirement requires a large nest egg. But planning for retirement is tricky; it's kind of like trying to plan a big party when you don't know exactly when or where it'll be, how many people will show up, or how long it will last. There are many variables to take into consideration that will surely change between now and the day you officially retire. But as fuzzy as all the variables seem right now, it's critical not to let that get in the way of getting started. Even in the face of volatile financial markets, you should never become complacent about saving for retirement.

The most important tip to successful retirement planning is simple: Start early! That's because starting earlier, rather than later, makes it possible to meet your goals on time with the greatest amount of wealth. If you accumulate a sufficient nest egg early, perhaps that sailing excursion around the world can happen at age fifty instead of at sixty-five. Or, perhaps your savings can provide needed income if you're faced with an unexpected challenge such as an illness that leaves you completely unable to work. I'm not trying to scare you into saving, but when you have an investment plan for retirement in place, there's no need to be troubled about your financial future. Also, don't worry if you haven't started saving yet; you'll just start now. With a plan in place you can live fully in the moment and stop losing sleep about your future. The best retirement plans put your investing on autopilot, and force you to pay yourself first. Automatic withdrawals from paychecks or bank accounts tend to make saving less painful because we adapt our budget to the amount of money that's left over. I'll give you some specific banking setup plans that make it easy to accomplish your goals and I'll talk more about retirement accounts like IRAs and 401(k)s in chapter 7.

But What About Social Security?

In the United States, Social Security refers to a group of benefits designed to assist eligible taxpayers. Certain programs give income to those who are retired, disabled, or survive a relative who was receiving benefits. Social Security is funded from payroll taxes—you may see it listed on your paycheck as OASDI, which stands for old-age, survivors, and disability insurance. Since you'll probably receive some amount of Social Security income in retirement, it's important to factor it into your plans.

Social Security's full retirement age has been gradually increasing because we're living longer. When Social Security benefits began in 1935, the average life expectancy was under age sixty. Workers born before 1942 were eligible to receive full Social Security benefits at age sixty-five. But for those born between the years 1943 and 1959, your full retirement age is sixty-six. And if you were born in 1960 or later, full retirement isn't available until you reach age sixty-seven. The earliest age you can start receiving Social Security retirement benefits remains sixty-two, regardless of the year you were born. However, if you elect to take Social Security retirement early, you receive benefits at a permanently reduced rate.

To qualify to receive Social Security retirement benefits, you must generally work a minimum of ten years. The calculation is based on the average of your thirty-five highest-earning years, whether you earned money in those years or not. Higher lifetime earnings result in higher benefits. The maximum benefit for a person fully retiring at age sixty-six in 2009 was $2,323 per month. Once you reach age twenty-five, Social Security statements are mailed out each year, about three months before your birthday. Remember that the statement won't include any income that didn't have Social Security taxes withheld. Review it to make sure that

> Here's a quick and dirty tip: Take advantage of the online retirement planner at ssa.gov, the Social Security Web site. It's a handy way to estimate your future retirement benefits and help you plan for retirement.

your reported earnings and personal information are correct. Mistakes could keep you from receiving all the Social Security benefits you've earned. You can report errors by calling 1-800-772-1213 or by visiting a local Social Security office. Visit ssa.gov for more information.

The bottom line is that we're forced to take retirement much more seriously than those of previous generations. Everyone, young or old, must have their personalized retirement plan in place above and beyond Social Security. Many financial advisers talk about a "three-legged stool" approach to retirement that includes drawing income from (1) Social Security, (2) a workplace retirement plan savings, and (3) personal savings. I prefer to think about Social Security less as a supporting structure for future retirement income and more like gravy for the meat and potatoes of your own retirement plan. And how do you manage to provide the bulk of your retirement funds from your own savings? You guessed it: You have to start planning!

CREATE A RETIREMENT PLAN

So now you know that planning for retirement should be a long-term goal. But the big question when it comes to saving for retirement is the same question that we asked when discussing your emergency fund: How much is enough? You need to know that in order to create the plan, right? The answer is still the same: It depends on your situation. Even though many people are earning incomes from primary and secondary careers well past the typical retirement age of sixty-five, we're living longer. That's certainly a good thing, but it means that few of us will have the vigor to work up until the day we die—and who wants to do that anyway? So that means most of us should plan on providing for ourselves well past our highest income-earning years. Statistics show that if you're sixty-five, you can expect to live another fifteen years on average. And if you live to be seventy-five, you're probably going to make it to your eighty-sixth birthday! So if you want to retire early at fifty-five, you could possibly need enough savings and income to last another thirty years or more.

Don't worry, I'll show you how easy planning for retirement can be. I'll help you identify just how much you'll need to build up. All you need to do is go through the following five steps. Then you can enter your information in an online retirement calculator and let it do the complex math for you!

Step One: Assess Your Financial Needs

With so many unknowns about your future, how do you actually start to plan for retirement? We're all in the same boat when it comes to the uncertainties that relate to our future retirement. But you have to start somewhere. So the very first step in creating a retirement plan is to assess your unique financial needs. Remember that there's no right or wrong answer to questions about when you should retire or how much money you should have to do it.

The amount of annual living expenses you'll need depends entirely on what your retirement lifestyle will be like. Take some time to think realistically about what you want to do after your working years. If you envision your retirement lifestyle being very similar to the one you have now, you'll need about the same amount of income that you have now or 100 percent, adjusted for expected inflation. If you want your retirement days to be filled with lots of activities that you consider luxuries today, such as travel or other expensive hobbies, you may need more income than you have today. And if you'd like to scale down your lifestyle and enjoy a more simple existence, you may be able to do that with a smaller percentage of your current income.

We're all very different; evaluate what will make you happy. Consider what expenses you have today that you know you'll continue to have during retirement. Perhaps you'll continue to pay rent, or maybe your home mortgage will be paid off by that time. Will your food expenses be about the same, or do you envision eating out more or less during retirement? Will your clothing or dry-cleaning expenses change? Some of your expenses may decrease during your retirement. However, some of your expenses, such as medical costs or recreation, may increase in your retirement years. Depending on your health needs, you may have substantial long-term care expenses as well. Plan your potential retirement expenses conservatively, or on the high side. It's always better to plan for expenses that you never have, rather than to estimate too low and have a savings shortfall. If you're not sure what you pay annually for all your different categories of expenses, your first assignment is to measure your current expenses accurately. We're going to do that in the next section, by the way. Once you estimate what your future expenses should be, that number establishes your minimum required annual retirement income.

Step Two: Consider Your Retirement Age

After you've established the minimum annual income you believe you'll need to thrive during retirement, think about how long you're going to need that level of income. To do that you must have a retirement age in mind and an expiration date in mind. Planning for our age of death is never a pleasant task. But if you don't have a specific number in mind, I recommend being conservative and aiming high.

Your retirement age is the future age when you want to start drawing from your retirement funds. Most retirement calculators assume that after that time you won't make any additional contributions to your retirement account. So if you decide to retire at sixty-seven, then your last contribution would have been when you were age sixty-six. Multiplying minimum annual income times the number of years you'll live after you retire, gives you the total income you estimate you'll need during retirement. Yes, it's going to be a big number, and it will be even bigger after inflation is factored in.

Step Three: Consider Inflation

The rate inflation will grow between now and when you want to retire is another variable you usually must enter into a retirement calculator. Inflation is a rise in the general level of prices of goods and services over time. It must be factored into the amount you'll need for retirement because the value of your money can only be measured by its future purchasing power. As inflation causes prices to rise, every dollar buys a smaller percentage of a good or service. That's why many people, especially retirees, fear the "evils" of inflation and view it as the greatest risk to a secure financial future. We have no way of knowing the amount of inflation (or its opposite, deflation) to expect at any time in the future. The most common measure of inflation in the United States is the Consumer Price Index (CPI). We stand at about a 3 percent year-over-year inflation rate. So using a 3 percent to 4 percent inflation number for your long-term investments is a conservative estimate.

Take a look at usinflationcalculator.com, which converts any amount of money for inflation from the past into today's dollars. For example, an item that cost $1,000 in 1980 would have cost 161 percent more, $2,613, in 2009! With inflation eating away your purchasing power, it's no wonder why you have to save so much for retirement. But when you start saving early, you have more time to accumulate money and will have less stress in the planning process.

Step Four: Consider Your Return on Investment

If inflation is the evil enemy of your retirement savings, then its best friend is most certainly compounding interest! Interest you earn in most investment and bank accounts gets "compounded" when it's added back to the principal amount over and over. The result is that interest continues to be earned on an ever-growing balance. That's the closest thing to a money tree I've ever found because your money earns you more money!

The average interest rate at which your money will grow is a very important variable that you enter into a retirement calculator.

That's the annual return you expect to receive from your investments after fees and taxes. Of course, you can't predict future returns with complete certainty because the actual return for different long-term investments varies widely over time. The Standard & Poor's 500 Index or the S&P 500 (standardandpoors.com) is one of the most commonly used stock market benchmarks. It's made up of five hundred large U.S. companies with stock that's actively traded.

Consider this history for the performance of the S&P 500 over the past three decades:

- From January 1970 to January 2010, the average rate of return was approximately 12 percent.
- From January 1980 to January 2010, the average rate of return was approximately 8.7 percent.
- From January 1990 to January 2010, the average rate of return was approximately 2.4 percent.

If you isolate the returns from the past three decades and take their average, you come up with about 7 percent. Again, that is a rough estimate of potential future returns. You'll also need to consider the rate of return you'll receive after you retire—plan on it being lower than the return you earn before retirement. That's because during retirement your goal should be to preserve your wealth, to keep your nest egg extremely safe. You accomplish that by choosing conservative investments, like bank CDs and bonds, that typically earn lower rates of return than more aggressive, risky investments. Consider using a rate of return that's half of what you estimate you'll receive before retirement. For example, if you believe you can achieve an average of 6 percent growth leading up to retirement, consider using 3 percent for your estimated return during retirement.

Here's an example to consider that shows how important it is to start saving for retirement as early as you can:

> If you start investing $200 per month in a mutual fund, with a 7 percent average annual return beginning at age twenty-five,

you'll have over $758,000 by the time you're seventy. But if you wait until you are thirty-five to invest $200 per month at the same rate of return, you'd only have $360,000 at age seventy. That's a difference of close to $400,000 that you wouldn't have because you didn't start investing sooner, putting the magic of compounding interest to work for you.

Step Five: Start Calculating

Some of the best retirement calculators that I've found are at aarp.org and choosetosave.org. In addition to knowing your estimated retirement expenses, age to retire, life expectancy, and estimated future returns on investment, you may need to enter your estimated Social Security benefits. You can use the benefits calculator at ssa.gov to get that information.

Below is information I entered into the Retirement Nest Egg Calculator at aarp.org for Mark, who's twenty-eight and currently single. I made the assumption that he'll work until he's sixty-seven years old and then will need retirement income for twenty-three years until he's ninety. He's only got $1,000 saved for retirement, but plans to start investing in his workplace retirement plan right away. There's a stock fund in the plan menu with a ten-year average return of 7 percent. He believes that he could be satisfied with 90 percent of his current income in retirement.

Current age:	28
Age of retirement:	67
Household income:	$40,000
Current retirement savings:	$1,000
Rate of return before retirement:	7%
Rate of return during retirement:	4%
Years of retirement income:	23
Percent of income at retirement:	90%
Expected salary increase:	3%
Expected rate of inflation:	3%
Include Social Security income:	yes

Based on the above information, the calculator estimates that Mark's nest egg needs to be $1,425,464, which takes his projected Social Security income at age sixty-seven into account. The calculator shows that in order for Mark to have that much money to draw from, he'll need to put $682 per month toward his retirement fund. You can play with calculator variables to see how they affect the amount you need to save. For instance, if Mark waited until seventy to retire and chose an investment with an 8 percent return instead of a 7 percent return, he'd need to save $370 per month.

Remember that a retirement calculator is a tool that can't estimate every factor of your unique circumstances. For instance, if you currently have expensive medical needs or a family history that indicates you may have such challenges in the future, it would be wise to save more than what a retirement calculator indicates. I've found that no two retirement calculators ask for the same input data or give you the same results, so try using a couple of them to compare various outcomes. The information should be used to help you approximate how much to set aside each month for your future. However, this is merely your starting point because you're going to update your retirement plan on a regular basis going forward. Retirement planning is not a set-it-and-forget-it process. It must be an evergreen, flexible action plan that you adjust as you age and change. You will fine-tune the plan every year or so to make it come into focus a bit more each time you review it.

If you don't want to do any calculating and prefer to leave all your retirement planning up to a professional, I recommend using a certified financial planner (CFP). You'll want to find someone you feel comfortable talking to who's willing to offer credible solutions and work toward your best interests. You may find good referrals from friends, business associates, or the National Association of Personal Financial Advisors Web site at napfa.org.

The final step in your planning is to just do it. There are some special types of retirement accounts for individuals, employees, and the self-employed that are designed to help you reach your goal faster. I'll show you how to open your retirement account(s) and

> Here's a quick and dirty tip: Add "Review my retirement plan" to your list of New Year's resolutions every year until the time you decide to pull the trigger on your retirement!

pick your investments in chapter 7. But first, let's figure out how to start saving for your future.

CREATE A SPENDING PLAN THAT WILL WORK

After you get a clear picture of where your personal finances stand today (by creating your Personal Financial Statement) and where you'd like them to be (by setting realistic financial goals), the next step is to close the gap between the two. The best way to do that is to understand where your money goes. After you dig into your cash flow, you'll clearly see your spending problems and be able to reprioritize expenses. That's how you make room for the money you need to put aside for your short-, medium-, and long-term goals.

I'll admit that budgeting isn't something I like to do. I think many of us shudder at the word *budget* because it implies doing without the things we want—kind of like dieting. But I do like spending! Creating a "spending plan" just sounds so much better than creating a budget. A spending plan is simply a plan for how you intend to manage your money. The goal in creating one is to make sure you account for your financial goals in addition to all your living expenses. You'll define all your monthly expenses by broad categories and assign them an allowable percentage of your monthly income. The total of all your expenses must balance with, or zero out, your take-home income. As you monitor your spending, you can adjust your expenses as needed, and make sure you have enough discretionary money left over to accomplish your goals. I'll give you some examples in the next section.

And here's the good news: I'm not going to tell you what percentage of your income should be allocated to groceries or entertainment, for example. That's because you have unique priorities that may be very different from mine. You may enjoy dining out a couple nights a week so much, that you're willing to delay saving for the purchase of a new car. Or you may resist buying new clothes for a year in order to take a vacation. It's all up to you to decide how your financial resources should be spent. A big part of creating your spending plan is putting your priorities into perspective. That should give you the motivation to carry it out on a daily basis. Will you slip up occasionally and buy something that wasn't in the plan or pay more for something than you anticipated? Absolutely. The car will need a repair that you didn't expect. Your family may need some help from you. There are a million ways you can get temporarily derailed from a spending plan.

The goal of a spending plan is not to make you miserable. Its implementation should get you excited, because what's truly important to you is being accounted for and addressed in the plan. You don't have to fear that you're not allocating enough money to your children's education fund when it's part of your spending plan. You won't have to worry about your retirement savings, either. In fact, you may get so excited about saving for the things you really want, that you'll enjoy sacrificing spending on what doesn't matter to you. It can become a game for some people who really get fired-up about seeing their goals become a reality!

So let's get started by creating a spending plan that'll work for you. I recommend that you enter data in a computer spreadsheet or financial program (which I'll discuss more in chapter 4), but writing it down on paper works, too. The first task is to estimate your monthly after-tax income. For some this is easy because you receive a regular paycheck. For others who are paid on commission or who are self-employed, you'll need to come up with a realistic monthly income estimate.

The second task is to enter all of your fixed monthly expenses below your income. Fixed expenses, such as rent, a mortgage, or a car payment, are those recurring costs that you must pay every month because they're vital for your well-being or are commitments you've already made. Label each category or payment on a separate row. Don't forget to account for any automatic payroll deductions you may have for workplace insurance or a retirement plan. Some fixed expenses you don't actually pay for in equal amounts each month,

> Here's a quick and dirty tip: Many utility companies offer a budget billing option, which allows you to pay an equal amount each month. That can be helpful if you live in an area with extreme climate changes.

so come up with a monthly average. For instance, if you pay insurance just twice a year, calculate the annual amount you pay, and then divide by 12. Or if your utility bills fluctuate a lot, research the total you paid for a full twelve-month period and divide by 12.

The third task is to enter all your variable monthly expenses below your fixed expenses. Variable expenses are those that can change each month or are discretionary. Dining out, buying clothes, groceries, or getting a haircut could be some of your variable expense categories. Try to think of all the ways you spend money. Maybe going to the movies or to a local coffee shop are black holes for your money. If so, be sure to create separate categories just for them. Enter the average of your actual expenses from at least three previous months by looking at charges on your account statements. If you don't have these, you'll simply need to start tracking your expenses going forward.

Your spending strategy should be based on your historical spending patterns. You need to analyze your most recent spending in order to plan your future spending. Once you have at least a few months of historical income and expenses accurately recorded, your next task is to create new spending guidelines for yourself. Decide how much you'd like to save each month and then decide where to cut back. You have many needs and wants that are all competing for your limited resources. You have to decide the best way to balance your current expenses and savings needs so you never spend more than you make.

> Here's a quick and dirty tip: PearBudget.com is an elegant online budgeting tool you can use to enter your actual income and expenses to compare against your proposed budget. Try it for free for thirty days, then the service charges $3 per month.

Remember Mark from the retirement planning section? Let's take a look at his household spending before and after his financial planning:

MARK'S MONTHLY SPENDING BEFORE HAVING A FINANCIAL PLAN		
CATEGORY	AMOUNT	PERCENTAGE
TOTAL AFTER-TAX INCOME	$2,565	100%
Rent	$700	27%
Utilities	$130	5%
Car loan	$350	14%
Insurance	$75	3%
Groceries	$525	20%
Restaurants	$125	5%
Clothing	$200	8%
Entertainment	$300	12%
Other	$160	6%
TOTAL EXPENSES	$2,565	100%

If Mark decided to save $370 each month to meet his long-term goal to retire at age seventy, he'd enter that amount as a fixed monthly expense on his spending plan. He also has a short-term goal to build up at least $1,200 for his emergency fund within a year—so that's a minimum of $100 per month. Here's what his spending plan looks like after including his goals and deciding to cut back in several categories such as restaurants, clothing, and entertainment:

MARK'S MONTHLY SPENDING PLAN		
CATEGORY	AMOUNT	PERCENTAGE
TOTAL AFTER-TAX INCOME	$2,565	100%
Rent	$700	27%
Utilities	$130	5%
Car loan	$350	14%
Insurance	$75	3%
Retirement fund	**$370**	**14%**
Emergency fund	**$100**	**4%**
Groceries	$500	19%
Restaurants	$75	3%
Clothing	$100	4%
Entertainment	$90	4%
Other	$75	3%
TOTAL EXPENSES	$2,565	100%

Enter the amounts you need to save or invest to accomplish your short-, medium-, and long-term goals in your spending plan. Then cut back spending in every category you can to make your savings and investments a top priority. There are a couple of different ways to approach it. You can cut all of your variable expenses across the board by 15 percent, for example. Or, you can pick and choose some categories to really cut back and leave the others alone—that's what Mark did. Take a hard look at which expenses you can reduce or eliminate right away. Establish the monetary amounts or percentages for an ideal or model month. For example, if over the past few months you've spent 5 percent of your after-tax income on entertainment, perhaps that amount could be reduced to 3 percent. Or if you've spent an average of $400 a month dining out, maybe you could limit it to $300 going forward. You have to set your own priorities about which expenses you're willing to reduce.

> Here's a quick and dirty tip: Use the Savings Goal Calculator in the checking and savings section at bankrate.com to figure the monthly, weekly, or daily amount you need to set aside for your financial goals.

The great news is that you can reanalyze and reprioritize your situation at any time. When your actual spending deviates from your ideal spending plan, it's time to regroup and move forward. That's how progress is made, month by month, and year by year. The important point is that you're aware of your financial progress, or lack of it, instead of sticking your head in the sand about it. No matter what your time horizon, the key to making a goal happen is to enter its monthly cost on your spending plan. If you can't afford it right now, you'll have some tough decisions to make about what you should bump off your spending plan. That's where the rubber meets the road and you truly rank your priorities. When you save for emergencies and invest wisely for retirement, you're actually choosing to purchase a happy and secure financial future instead of buying something that may be unnecessary and quickly forgotten.

Increase Your Discretionary Income

When you subtract your monthly fixed and variable expenses from your monthly after-tax income, what you have left over is your discretionary income. The obvious goal is to grow your discretionary income and to make saving a priority over spending. Consider anything you can do to increase your income and decrease your expenses.

Make a commitment to yourself to become your own spending detective. If you can carefully track your expenses, you'll probably be amazed at the ways you can plug unnecessary spending leaks and save money. Whether you track expenses manually or electronically, the goal is to be as thorough as possible. Make sure that each and every check you write, charge you make to a debit or credit card, and cash amount you dole out is recorded.

Here's a quick and dirty tip: Billshrink.com is a free savings tool that makes personalized recommendations to save you money on mobile phone plans, credit cards, and gasoline purchases, based on your actual everyday usage.

Some of the many benefits of using money management software or online financial applications are their helpful planning and budgeting functions. In the computer money management section in chapter 4, I'll detail different programs and tools that can make money management and budget tracking easy, and (maybe) even fun!

Your job is to find a way to track your cash inflows and outflows that works best for you. Once you've used your spending plan to cut expenses and maximize your discretionary income, you'll want to put that money to work for you.

Spending Plan Summary

There are three basic steps to implementing your spending plan:

1. Identify how you're spending money now by tracking at least three months of your most recent expenses.
2. Evaluate your spending and redesign it so you have enough money left over to save and invest for your goals.
3. Track your spending each month so you know if you're spending within the limits you set for yourself. When you spend too much, cut back in the categories that are easiest for you. If you still can't meet your guidelines, you'll need to make tougher spending sacrifices.

15 WAYS TO SAVE MORE MONEY

There are lots of ways to stay on track with your model spending strategy. Here are fifteen tips for how to save more money:

1. **Evaluate your housing situation.** Is there a way to pay less? Perhaps renting a larger home or apartment would allow you to have a roommate or two to share expenses and come out ahead. Or consider if buying a home could be more economical for you in the long run. If you buy at the right price, it's possible that home ownership may be less expensive than renting. If you already own a home, you'll learn strategies in chapter 5 to reduce your mortgage liability, such as refinancing or doing a loan modification. Chapter 8 will tell you everything you need to know about buying real estate and if it's the right move for you.

2. **Reduce your power bills.** Your electric heating and air-conditioning system sucks up most of the power that you pay for. When it's warm, every degree you choose to raise the thermostat above seventy-eight can reduce your cooling costs by as much as 10 percent. And in winter, every degree you warm your home above seventy can cost you an additional 7 percent to 10 percent. Portable fans or ceiling fans are inexpensive and allow most people to raise their thermostat in warm weather by approximately three to four degrees and feel just as comfortable. Just be sure to turn off the fans when you leave the room. Remember that anything plugged into electric sockets is pulling some electricity. So unplug electric chargers and appliances that don't need to stay on all the time, like coffee machines. Clothes dryers pull a lot of energy, so remove clothes while they're still slightly damp and do one dryer load right after another to maximize the built-up heat from the prior load. Visit your power company's Web site to find out more about inspections, energy-saving tips for your geographic area, and budget billing that may allow you to pay a fixed amount each month based on your historical power usage.

3. **Be smart with your water use.** Consider installing inexpensive water flow regulators in showers and opting for shorter laundry cycles that use more cold water. You can also reduce your hot-water heater setting. For every ten degrees that you reduce it, it's possible to lower your power bill by 5 percent. A good water temperature is

120 degrees if your dishwasher has a hot water booster, or 130 degrees if not. For more money-saving tips, take a look at these two Web sites: the American Council for an Energy-Efficient Economy at aceee.org and the U.S. Department of Energy's site devoted to energy efficiency and renewable energy at eere.energy.gov.

4. **Slim down your household expenses.** Are you in the habit of paying bills for your telephone, television, cell phone, and Internet without scrutinizing them or seriously shopping around for better deals? Look at your options for lower-priced packages that bundle those services. Consider ditching your telephone landline and going totally cellular! I haven't had a landline for years and it hasn't posed a problem yet. It'll save you money and put an end to those dinner-disturbing sales calls. Compare cell phone plans at myrateplan.com.

5. **Cook with a microwave oven when you can.** They're inexpensive and use up to 30 percent less energy than a traditional oven. Plus, they don't generate heat in the kitchen during warm weather.

6. **Eliminate banking fees.** You should never have to pay banking expenses related to ATMs, paper checks, and overdraft, statement, and transaction fees. The next chapter will get you up to speed on how to get the most out of your banking accounts.

7. **Reduce your payroll tax withholding.** Many people have too much federal taxes withheld from their paychecks. If you're in that boat, it's much better to receive a higher paycheck now so you can save more money, than to wait and receive the excess withholding as a tax refund many months in the future. Ask your employer for a Form W-4 or download it from the Internal Revenue Service (IRS) Web site at irs.gov so you can revise it and get an instant pay raise.

8. **Raise your insurance deductibles.** The higher your deductibles, the lower your insurance payments will be. Review all your policies, such as homeowners, auto, and health, at least once a year

to make sure you have the best deal. Sit down with an insurance agent or go to insweb.com to see where you can cut back but still have adequate coverage. Shop around at sites like ehealthinsurance .com to see if you can beat the health insurance you get through work. One benefit to having your own health insurance is that you'll maintain coverage if you tend to change jobs frequently. You may opt for a high-deductible plan with lower premiums and the unique ability to save money for health care expenses in a tax-advantaged health savings account (HSA).

9. **Use a Flexible Savings Arrangement (FSA).** If your employer offers an FSA, you can have money deducted on a pre-tax basis to pay for health and child care costs. That saves you money on expenses you'd have to pay for anyway. Estimate how much you want to save carefully, however, because if you don't spend the full amount deducted from your paycheck by an annual deadline, you lose it. (With an HSA, your contributions stay in the account indefinitely—there's no penalty if you don't use the money each year.)

10. **Get free media and entertainment.** Remember the library? Stuff is free there like books, DVDs, and Internet service. You could also cancel your paid television service completely—digital channels are free. You can even watch many shows 24/7 on the Web at sites like hulu.com. I'm a huge fan of free podcasts—who needs to pay for satellite radio when you can download national or independent news and entertainment shows for free?

11. **Cook at home and stay healthy.** Make a commitment to eat right, exercise, and quit smoking. Good health can save you lots of money on doctor bills, medication, and maybe even make you eligible for preferred rates on health, life, and disability insurance. Cooking at home is inexpensive and allows you to make wise food choices. Try using a meal plan service like e-mealz.com that creates your dinner menu for a week. You receive a customized, one-page plan with a complete grocery list based on the weekly sales at the store(s) you choose to shop, like Publix, Walmart, or ALDI. Your

total grocery bill for a week's worth of dinners for four to six people will average about $75.

12. **Don't pay full price.** Sometimes saving money just means buying smarter. Find great coupons, savings offers, and freebies at sites like:

- coupons.com
- redplum.com
- smartsource.com
- befrugal.com
- retailmenot.com
- wisebread.com
- eatbetteramerica.com (funded by General Mills)
- pgeverydaysolutions.com (funded by Proctor & Gamble)

The Internet makes it easy to shop and compare prices. I love buying nonperishable products in bulk from amazon.com and having them delivered to my front door.

Visit Web sites of the grocery and pharmacy stores where you shop, like publix.com, albertsons.com, aldi.com, walmart.com, target .com, walgreens.com, and cvs.com for special offers and coupons. You can come out ahead by joining local discount superstores like Costco, Sam's Club, or BJ's Wholesale, even after paying the annual membership fee. If you don't have storage space to buy in bulk, shop with a friend or neighbor and split your bulk purchases.

13. **Eat out the smart way.** If you're like me and enjoy eating out (a lot!), you can save money by choosing restaurants that are reasonably priced and offer large portion sizes. I'm a big fan of getting two or more meals out of one by taking home leftovers or getting takeout. Go to restaurants that don't employ waitstaff, but serve you from a pick-up counter instead because that eliminates having to tip a server. Also, limit your alcoholic beverages in restaurants to special occasions. Most establishments make a killing on beer, wine, and cocktails, so opt for water, which is inexpensive and healthy, too.

14. **Choose energy-efficient appliances and vehicles.** When you need to replace an old appliance or buy a newer car, consider energy-efficient models that can save you power, water, or gasoline, and are good for the environment. They may cost a little more up front, but if you keep them long enough, they'll usually save you money. Some purchases may qualify for federal or state tax credits or certain rebates. Go to energystar.gov for more information.

15. **Maintain what you have.** Your vehicles, air-conditioning system, water heater, clothes washer and dryer, or anything else you own that uses energy, requires regular maintenance to extend its life and run efficiently. And once a vehicle is paid for, try to keep it as long as possible. When repairs are needed, remind yourself how those costs stack up against the monthly payments you used to make. Also, try not to buy things that require a lot of maintenance in the first place.

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