NEW YORK TIMES, *WALL STREET JOURNAL*, *BUSINESSWEEK*, AND *USA TODAY* BESTSELLER

REVISED AND UPDATED

SMART COUPLES FINISH RICH

OVER 600,000 COPIES SOLD

9 STEPS TO CREATING A RICH FUTURE FOR YOU AND YOUR PARTNER



DAVID BACH

9-TIME *NEW YORK TIMES* BESTSELLING AUTHOR

PRAISE FOR Smart Couples Finish Rich

"David Bach is the one financial expert to listen to when you're intimidated by your finances. His powerful and easy-to-use program will help couples of all ages learn to save and invest to afford their dreams."

—Tony Robbins, author of
Money: Master the Game

"[David Bach's] advice is heartfelt and worthy. For most couples struggling to make their financial lives smoother, this is a good place to get the dialogue rolling."

—*USA Today*

"David Bach offers a prescription both to avoid money conflicts and to plan a harmonious future together….The bottom line is action, and Bach's chatty writing style helps motivate you to that end."

—*Businessweek*

"*Smart Couples Finish Rich* teaches women and men to work together as a team when it comes to money. Bach's nine steps are powerful, yet easy to understand and fun to implement. The entire family can benefit from this great book."

—Robert T. Kiyosaki, author of
Rich Dad, Poor Dad

"Bach specializes in commonsense advice and a clear-cut path for engaging your partner in fruitful discussions about your shared financial future….His advice serves to free you and your beloved from the stress of never being quite sure of exactly where you stand financially. You'll probably be surprised by how big a difference Bach's strategy can make in

your relationship."

—*Better Investing*

"Bach does a great job convincing couples to think about money, talk about money, get a financial plan in order—and yes, spend less and save more."

—*American Way*

PRAISE FOR The Automatic Millionaire

"*The Automatic Millionaire* is an automatic winner. David Bach really cares about you: on every page you can hear him cheering you on to financial fitness. No matter who you are or what your income is, you can benefit from this easy-to-apply program. Do it now. You and your loved ones deserve big bucks!"

—Ken Blanchard, coauthor of
The One Minute Manager

"*The Automatic Millionaire* gives you, step by step, everything you need to secure your financial future. When you do it David Bach's way, failure is not an option."

—Jean Chatzky, Financial Editor, NBC's *Today*

PRAISE FOR Start Late, Finish Rich

"Financial wizard David Bach's new book, *Start Late, Finish Rich*, offers solid advice for getting our finances in order, no matter how old we are."

—AARP

"With feel-good sensibilities, David Bach delivers levelheaded strategies for reaching financial goals….Bach's clever approach will make readers feel as

if they're having a one-on-one conversation with a friendly personal financial counselor….Powerful, poignant and pleasing, *Start Late, Finish Rich* can't be read fast enough."

—*BookPage*

PRAISE FOR Smart Women Finish Rich

"Inspires women to start planning today for a secure financial future. Every woman can benefit from this book….Bach is an excellent money coach."

—John Gray, author of
Men Are from Mars, Women Are from Venus

"Straight-shooting, action-oriented tips for getting a handle on your spending and savings habits…presented in a straightforward, non-intimidating manner perfect for the finance newbie."

—ABCNews.com

"[David] Bach gets across complicated stuff: how to organize a portfolio, keep the taxman at bay, invest in yourself, and earn more, all of which makes this book one of the best overall."

—*Working Woman*

PRAISE FOR The Automatic Millionaire Homeowner

"[Bach's] cheery, can-do message…cuts through the intimidating challenge of buying a house for the first-timer…for a newcomer, it's fundamental reading."

—*USA Today*

"If you read only one real estate book this year, it should be *The*

Automatic Millionaire Homeowner….This is one of the few real estate books that cannot be recommended too highly for both beginners and experienced homeowners."

—Robert J. Bruss,
Miami Herald

PRAISE FOR Go Green, Live Rich

"Great news: there is no green premium! By demonstrating how going green can fit any budget, David Bach shows that good environmental and financial decisions go hand-in-hand. *Go Green, Live Rich* gives great tips, useful to everyone, about how to save money and the planet at once."

—Robert F. Kennedy Jr.

"*Go Green, Live Rich* is as much about saving money as it is about preserving our world of natural wonders for future generations. This is the rich-greenbook of a promising tomorrow."

—Matthew Modine, founder of
Bicycle for a Day

PRAISE FOR Debt Free For Life

"David Bach has changed lives and taught millions to be smarter with their money and live a truly rich life through his 11 national bestselling books and regular appearances on NBC's *Today* show and the *Oprah* show. He has now taken his honest, simple, 'take action' advice to inspire and teach America to shed its debt with his latest book, *Debt Free For Life*. David has created the ultimate debt guide with the latest and greatest systems and tools to achieve financial freedom once and for all. *Debt Free For Life* is about gaining back ownership of your life and creating a brighter, financially secure future."

—Susan C. Keating, President and CEO of
the National Foundation for Credit Counseling

"David Bach understands the struggle of millions of Americans who are drowning in debt and has written the must-read of the decade to inspire and guide America to shed its debt—FOR GOOD! *Debt Free For Life* provides actionable advice and SOLUTIONS—what you can do TODAY to fix your finances and fix your debt. Bach's plan includes an abundance of tools to lead to a debt-free world of true financial security. Pick up your copy of *Debt Free For Life* today and join David's mission to turn back the tide of debt and buy back our futures—futures free from debt."

—David C. Jones, President of
the Association of Independent
Consumer Credit Counseling Agencies

Also by David Bach

The Automatic Millionaire®

Smart Women Finish Rich®

Start Late, Finish Rich

Start Over, Finish Rich

The Finish Rich Dictionary

The Finish Rich Workbook

The Automatic Millionaire Homeowner

The Automatic Millionaire Workbook

Debt Free For Life

Fight for Your Money

Go Green, Live Rich

SMART COUPLES FINISH RICH®

9 Steps to Creating a Rich Future for You and Your Partner

DAVID BACH



CURRENCY
NEW YORK

Copyright © 2001, 2002, 2018 by David Bach

All rights reserved.

Published in the United States by Currency, an imprint of the Crown Publishing Group, a division of Penguin Random House LLC, New York.

currency.com

CURRENCY and its colophon are trademarks of Penguin Random House LLC.

Originally published in hardcover in the United States and in slightly different form by Broadway Books, an imprint of the Crown Publishing Group, a division of Penguin Random House LLC, New York, in 2001. Subsequently published in trade paperback, by Broadway Books, an imprint of the Crown Publishing Group, a division of Penguin Random House LLC, New York, in 2002.

Currency books are available at special discounts for bulk purchases for sales promotions or corporate use. Special editions, including personalized covers, excerpts of existing books, or books with corporate logos, can be created in large quantities for special needs. For more information, contact Premium Sales at (212) 572-2232 or e-mail specialmarkets@penguinrandomhouse.com.

This book is designed to provide authoritative information on the subject of personal finances. It is sold with the understanding that neither the Authors nor the Publisher is engaged in rendering legal, accounting, or other professional services by publishing this book. As each individual situation is unique, questions relevant to personal finances and specific to the individual should be addressed to an appropriate professional to ensure that the situation has been evaluated carefully and appropriately. The Authors and Publisher specifically disclaim any liability, loss, or risk which is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this work. This book provides numerous charts and illustrations provided by third parties; no warranty can be made to their accuracy. They are intended for illustrative purposes only, and past performance does not guarantee future performance. While all of the stories and anecdotes described in the book are based on true experiences, most of the names are pseudonyms, and some situations and characteristics have been changed slightly for educational purposes and to protect each individual's privacy.

The Automatic Millionaire, Smart Women Finish Rich, Smart Couples Finish Rich, Purpose-Focused Financial Plan, Value Circle, FinishRich Inventory Planner, FinishRich File Folder System, The Couples' Latte Factor, The Latte Factor, The Smart Couples' Seven-Day Financial Challenge, and *Money Date* are trademarks of David Bach and FinishRich Media.

Library of Congress Cataloging-in-Publication Data

Bach, David.

Smart couples finish rich : 9 steps to creating a rich future for you and your partner / David Bach.—1st ed.

p. cm.

1. Couples—Finance, Personal. 2. Investments. 3. Financial security. I. Title.

HG179.B243 2001

332.024'0655—dc21 00-046755

ISBN 9780525572930

Ebook ISBN 9780525572947

Cover photograph by Tetra Images/Getty Images

v5.1

a

To my readers who have taken the time to reach out to me personally over the years and share your success stories with me, this book is dedicated to YOU—"the doers, the dreamers, the Live Rich achievers." Well done!

And to my parents, Bobbi and Marty Bach—you told me to spread my wings and fly, and that made all of this and more possible. I love you!

CONTENTS

Cover

Praise for Smart Couples Finish Rich

Also by David Bach

Title Page

Copyright

Dedication

Preface to the Updated Edition

Introduction

Why Smart Couples Are Taking Control of Their Financial Future

Step One

Learn the Facts and Myths About Couples and Money

Step Two

Determine the True Purpose of Money in Your Life

Step Three

Plan Together…Win Together

Step Four

The Couples' Latte Factor®

Step Five

Build Your Retirement Basket

Step Six

Build Your Security Basket

Step Seven

Build Your Dream Basket

Step Eight

Learn to Avoid the Ten Biggest Financial Mistakes Couples Make

Step Nine

Plan a Money Date™

Three Words That Make a Difference

Acknowledgments for the Updated Edition

Acknowledgments for the Original Edition

Appendix 1: Where Does the Money *Really* Go?

Appendix 2: FinishRich Inventory Planner™

Appendix 3: Purpose-Focused Financial Plan™

How to Reach Us

PREFACE TO THE UPDATED EDITION:

A PERSONAL MESSAGE FROM DAVID BACH—THE JOURNEY CONTINUES (17 YEARS LATER)

Thank you for being here. If you've read this book before and you're returning for the update of *Smart Couples Finish Rich*, welcome back. I love reconnecting with my readers, and I've missed you. If you're a new reader and this is our first time together, welcome. I'm incredibly excited and grateful to be with you all! The book you hold in your hands right now was originally my second book, which I wrote back in 2000, following the breakout success of *Smart Women Finish Rich*. It has been an unbelievable joy the past two decades to teach personal finance to so many of you and make a difference in your lives.

When the book was launched in 2001, I toured the country to spread the message of how smart couples can work on their financial life and their dreams as a team. In the beginning, the audiences were small and the book signings were smaller. Soon, however, the word spread about the value of the book, and thousands began attending the seminar based on it, then tens of thousands. Ultimately hundreds of thousands of couples would go through the program. The book would become a #1 national bestseller, appearing on the bestseller lists of the *New York Times*, *Wall Street Journal*, *USA Today*, and *Businessweek*, and in 2004 it was the #1 paperback business book of the year. And word continued to spread. In the next decade and a half, it helped couples all over the world and remained on bestseller lists for years.

This book would ultimately be featured on every major media outlet imaginable, from *Oprah* to NBC's *Today,* CBS, CNN, Fox, CNBC, *Huffington Post,* AOL, Yahoo, *Business Insider* and more. The more it was shared, the more it worked for couples of all ages. And the more it worked for couples, the more I put off updating it. In 2015 I went back out on the road and did a new tour nationwide, with a new seminar based on this book. Thousands of you came, with hundreds of you sometimes standing in line for over an hour just to meet me and say "thank you." You asked me, "David, when are you going to update the book? I want to give it to my friends!" To all of you who asked I thank you for the final push and motivation I needed to sit down and write it.

The truth is that a book update like this is in many ways harder to write than a new book—at least it is for me. So *what exactly was updated?* The answer is: pretty much most things that are not the timeless principles I teach. This book has been painstakingly refreshed and updated from front to back. The entire world of investing has changed since I originally wrote it. The tax laws, investments, retirement accounts, insurance, healthcare, technology—it's all different and in most cases improved. New companies, websites, and apps have come into being to make managing your money easier for all and more fun, and the best companies and resources are now included in this update. The cost of advice and investing has also come down on almost every investment product from insurance to mutual funds, and I've shared how to get the best deals. You should be able to save thousands of dollars by reading this book and acting on the advice. And, more important, when you follow the steps I outline, I believe you will be able to become financially secure for life. That's a big promise, but I've seen the advice work for smart couples time and time again. I truly, deeply believe that *couples who plan together win together*. This book has always been a program that is about much more than money. That core message has not changed. I designed this to be a road map, an action guide by which the two of you can live a life aligned with your values, pursuing together that which is most important to you. Finally, to help you really do

this as a team, I've added a quick, fun chapter on how to plan a *Money Date*™, a powerful concept I created after the original book came out and have taught around the world to help you work on your money *together*.

Again, if you're a first-time reader, welcome. If you're a returning reader and friend, welcome back! Thank you from the bottom of my heart for giving me the opportunity to be your guide and coach once again through these upcoming pages. My goal and mission have always been to help you live and finish rich—because I know you can. Now, let's get started! The fun is about to begin. *Your journey starts now*.

David Bach

FREE! SPECIAL BONUSES FOR READING THE BOOK

Over the years many of you have asked for the worksheets in this book to be downloadable and bigger. They are now available as a free PDF, which you can find on our website. We have also launched a new seminar based on this book called *Smart Couples, Smart Retirement.* The seminar is taught around the country, and details can be found at **www.davidbach.com**. Enjoy!

WHY SMART COUPLES ARE TAKING CONTROL OF THEIR FINANCIAL FUTURE

I'll never forget the first fight I had with my wife, Michelle, over money. We were just back from our honeymoon, and the bliss of getting married was still in the air. Our new apartment looked great. We were incredibly excited to be starting our lives together.

As Michelle began to unpack, I sat down at the kitchen table and started sorting through the mail. Since we'd been gone almost two weeks, there was a lot to go through. I began separating the important stuff from the junk mail, taking the bills that needed to be paid and placing them in piles. Nice, neat organized piles. In my mind, this bill-paying stuff would clearly be a nonissue. After all, both Michelle and I were financial professionals. I managed money for hundreds of couples; she helped corporate executives trade restricted stock. What's more, I'd spent the last five years teaching classes on financial management and had just started writing a book on

money for women. Paying our bills and managing money as a couple were bound to be a breeze.

NEAT AND SIMPLE?

As I sorted out the bills, I created a "David" pile and a "Michelle" pile. This was going to be so easy. I'd pay my bills (like my car payments and my cell phone) and Michelle would pay her bills (like her car and her cell phone). We'd split the household bills, which meant we needed a "we" pile. And…hmmm…who pays the insurance bills? Well, we'll figure that out. Maybe we also need a "to be discussed" pile. Let's see, that's four piles.

Oh, here's a bill for the cleaning lady. I guess that could go in our "we" pile. But what about this American Express bill with all the honeymoon expenses on it? Well, the card's in my name and I guess it's pretty much the guy's job to pay for the honeymoon, so that should probably go in the "David" pile. Dry cleaning? Well, even though we now get our dry cleaning done at the same place, the account is in my name, so I guess I can pay it. Let's see—how much does this cost? No way…this can't be right! How could my dry-cleaning bill have tripled in a month?

Michelle was in the bedroom organizing her closet. "Honey," I yelled to her, "do you know they charge $7 to dry-clean one of your sweaters? How can it cost so much to dry-clean women's clothing? And do you know you had them dry-clean *seven* sweaters this month? This is insane. We're going to have to get two dry-cleaning accounts, because I'm not paying these ridiculous prices for you."

Michelle stopped what she was doing and came into the kitchen. "Of course I know it costs $7 to dry-clean a sweater," she said. She looked down at my nice, neat piles of bills. "Hey, what's with all this?" she asked.

I grinned up at her. "Oh," I said, "I'm getting things organized. I'm

separating our bills to see who pays what."

Michelle looked at me a little strangely. "Honey, you don't need to waste your time doing that. This is going to be easy. We are going to put all of our money in a joint checking account and pay everything together."

"We are?"

"Of course we are. We're married now, we love each other, and from now on everything we have is one and everything we do as one."

"Well, actually," I said, "that's not exactly what I had in mind." Sensing a little tension, I quickly added, "In the beginning at least, I think it might be easier if we sort of split this stuff up."

"But, David," Michelle replied, "you make more and spend more than I do. You can't expect us to just split all these bills down the middle."

"Well, no, of course not," I said. "I thought I'd sort of split them up in a way that's fair."

"Well, what's fair?"

Good point, I thought. "Well, I need to think that through."

Michelle shook her head. "No, you don't. I'll tell you what's fair. What's fair is that we put all our money in one account and pay all the bills out of this account."

SOMETHING'S NOT WORKING

Fast-forward a few months. Michelle and I still hadn't totally agreed on who was responsible for paying what. Unfortunately, the bills kept arriving, just like clockwork, every 30 days. Only now they were starting to get paid late (and, as a result, we were getting hit with late fees).

Upset about all the money we were wasting on late fees, I began freaking out and blaming Michelle for the problem. In turn, she was telling me it was all the fault of my stupid "pile system." Needless to say, what we were

doing wasn't working. And rather than sorting itself out, the problem was only getting worse. Instead of sitting down and discussing how we might reconcile our clearly different attitudes about handling money into one simple system that worked for both of us, we were running on "assumptions." I was assuming Michelle knew how I wanted our money to be managed, and she was assuming I knew what she wanted to do. We were each assuming the other was paying certain bills. We weren't on the same page—and the consequences were that this "money stuff" was creating more stress than it should.

THE GOOD NEWS...

Eventually, Michelle and I did come up with a system to manage our finances together. As a result, I'm happy to report that things are much, much better for us on the money front. We now work together on our finances, and instead of making assumptions about how the other one feels, we put our heads together and bounce ideas off each other. In short, we've learned to make a priority of discussing our finances and planning our financial goals and dreams together. Doing this changes everything: it ends the fights and it focuses the energy of a relationship on the positive instead of the problems.

Looking back, it's not surprising that as newlyweds Michelle and I had a hard time figuring out how to handle our finances. Even though we both had financial backgrounds, we had never taken a class or gotten any coaching about how to manage money as a couple. As a result, neither of us had ever thought about how different things become when you go from being two single people managing your money separately as individuals to a couple managing your money together.

Needless to say, what Michelle and I went through was hardly unique. Most couples have never been taught how to plan their financial future

together. As a result, most couples rarely talk about money…unless they are fighting about it. My goal with this book is to change that. Having taught so many couples both as a financial advisor and now through this book and the seminar it is based on, I'm happy to report that it's both possible and fun to become a Smart Couple Who Finishes Rich. The key to being able to "win financially" is learning how to take the right actions in the right order. It's really not difficult at all—especially when you do it together as a couple.

In this book, we're going to work on how the two of you, as a couple, can both talk about and handle your money in a smart way. Whether you're just starting out or are well into midlife, whether this is your first marriage or your fourth, this book will show you how to get your financial goals and your personal values in synch so they—and the two of you—can work together to make your dreams a reality! What's more, if you have financial fears—and most people do—you will learn how to address and overcome them as a couple.

YOUR ROAD MAP TO LIVING—AND FINISHING—RICH

My goal in this book is to provide an action-oriented road map that will enable the two of you to take control of your finances as a couple. In the chapters that follow, you will learn everything you need to do as a couple to both live and finish rich. Specifically, you will learn:

- How to learn to earn…together (without fighting!)
- How to look at your values and put what matters most in your life first
- How to use what I call the "Couples' Latte Factor" to transform any income into a million-dollar nest egg

- How to protect your family with a "security basket," provide for your future with a "retirement basket," and fund your dreams with a "dream basket"
- And finally, how to grow your income as a couple by 10 percent over the next nine weeks.

In the past, many of you may have read investment books that put you to sleep. I promise you, this one won't. The reality is that investing is a blast when you know exactly what to do and how to do it. The problem with most investment books—and most financial advisors—is that they talk over our heads. You won't find that here. That's because my approach to living and finishing rich involves some incredibly simple techniques that can be life-changing when you put them into action.

IF MY GRANDPARENTS COULD DO IT, SO CAN YOU

I learned how to invest from my grandmother, Rose Bach. It was Grandma Rose who helped me make my first stock purchase. I was just seven years old, and the stock was a share in the company that owned my favorite restaurant in the whole world…McDonald's.

Where did my grandmother learn to invest? That's an amazing story.

My grandparents had no money and no college education. During the Great Depression, they lived in Milwaukee, Wisconsin, and like many Americans of their time, they struggled to keep their heads above water. As my grandfather used to say, "You gotta watch the pennies because they add up to a dollar." Fortunately for my grandfather—and, ultimately, for me and my whole family—shortly after her thirtieth birthday my grandmother made a decision that transformed all our lives.

One day, tired of the never-ending struggle to make ends meet, she

decided that someday she was going to be rich. It was a remarkable decision, for at the time she was earning only $10 a week. And my grandfather was earning even less…just $5 a week.

The first step, she decided, was to build up a small nest egg. So, together, she and my grandfather began putting aside 10 percent of their paychecks each week, keeping the money in a coffee can in their kitchen.

After a month of saving, my grandmother took the money they had accumulated and went to a local brokerage office to open an account. She was not exactly welcomed with open arms. Scandalized that a married woman had come to see them on her own, the men running the brokerage told her to leave—and not come back without her husband!

Someone else might have been intimidated. But not my grandmother. She was a strong and feisty woman. "Gentlemen," she said, "if you don't want my money, I'll go next door and open an account with your competitor."

My grandmother got her account and she began to invest what she and my grandfather managed to save each week. To make a long story short, her investments eventually made her a millionaire. (Her investments also inspired a family tradition: her son—my father, Marty—became a financial advisor, as did both of her grandchildren, my sister Emily and me.)

Of course, things didn't always go smoothly. A few years ago, I asked my grandmother how she did that first year. "I know how it turned out, Grandma," I said, "but how did it start?"

My question made her laugh. "David," she said, "I bought four stocks… and they all went to zero in less than a year!"

I was stunned. "Zero?" I repeated. "What did Grandpa say?"

Grandma laughed some more, her eyes sparkling. "I didn't tell him!" she replied.

"But what kept you going?" I asked her. "How did you keep investing after you lost all of your money after a full year of saving?"

She looked me straight in the eye. "David," she said, "I told you—I wanted to be rich, not poor." She went on to explain that she had quickly realized the problem was not the stock market or the stockbroker or even the particular stocks she had chosen. "The problem was me," she said. "I didn't know the first thing about investing. I had never taken a class on investing. Your grandfather didn't know anything about money. It was the blind leading the blind."

But then, she said, she realized something that then and there changed her life. "If we were going to get rich, I was going to have to *learn* how to get rich! I needed to take classes, read books, study the stock market, and make friends with rich people." This revelation of my grandmother's led to a lesson that has stayed with me ever since.

There are many things my Grandma Bach taught me about money, but none was more important than this:

IF YOU WANT TO GET RICH, YOU HAVE TO LEARN TO EARN

The fact is, anyone can become an investor. Indeed, today with the Internet, it's never been easier to get started. But becoming an investor and becoming wealthy are not the same thing. Had my grandmother not realized that she needed to get smart about money, she and my grandfather would more than likely have ended up like 90 percent of all Americans—struggling to survive during retirement.

My grandmother's story illustrates another lesson that's worth mentioning here—namely…

YOU DON'T HAVE TO BE RICH TO BE AN INVESTOR

My grandparents started out with nothing, able to save only a few dollars a week. Yet over time they were able to build a million-dollar portfolio. How? By planning together, saving together, and investing together. Had they decided that because they were poor and didn't have college degrees, they would always be poor, that's just what would have happened. But that's not what they did. Instead, they decided to change their lives. They decided to be a Smart Couple Who Finishes Rich.

Okay, that was my grandparents and it was a long time ago. What about you today?

Can a book like this one really change the way you and your partner think about money and enable you to realize your financial dreams?

The answer is an unequivocal yes.

Can the process of working on your finances as a couple really be fun?

Absolutely. In fact, there are very few things in a relationship that can do more to solidify your bond and make you stronger as a couple than planning your financial future together. Think about it. Most couples decide to spend their lives together because they sincerely love each other and want to build a life together. I've never met a couple who said, "Wouldn't it be great to be together so we can fight on a regular basis about our finances!" But even though no one wants to fight about money, the fact is that most couples do. Either that or they flat-out avoid the subject.

According to the experts, the number-one cause of divorce in this country isn't sex or religion or problems with the in-laws. It's fighting over money. Having advised hundreds of couples individually in my financial-planning practice, I can tell you from firsthand experience that working on your money together significantly improves the chances not only of your succeeding financially but of your staying together happily as a couple. The key is to take the journey together—not separately.

This book is meant for couples who want to do that. If you are looking for a book that will explain how to hide assets from your partner or create

ways to keep your finances separate, you might as well stop reading now. *My goal is to help you be the strongest couple you can be, and the best way I know to do this is to go on the journey together.*

TAKING CHARGE TOGETHER: THE SECRET TO YOUR SUCCESS

You may have already noticed that I've been referring to your spouse or significant other as your "partner." I do this deliberately, for in a good relationship that's exactly what a spouse or significant other should be—a partner.

The vital importance of partners really acting like partners when it comes to money became apparent to me after I published my first book, *Smart Women Finish Rich*. One of the great things about writing a book is that you often get feedback from readers sharing with you what works and what does not. Within just a few months of the publication of *Smart Women Finish Rich,* I was getting dozens of e-mails daily from readers recounting the kind of impact the book was having on them.

Most of the messages were incredibly positive, but a few concerned me. For example, one woman wrote, "Your book has changed my life. I'm now totally motivated and taking charge of my own finances. The problem is, I can't get my husband to change. Without his support, I'm wondering if any of my efforts will be worth it." In a similar vein, another woman wrote, "Great ideas in theory, but my husband won't save, spends all of our income on 'male toys,' and won't listen to me about your ideas."

It wasn't just women complaining about irresponsible men. Even though *Smart Women Finish Rich* was meant for women, I got a fair number of e-mails from men who had purchased the book for their wives or girlfriends…only to find they weren't interested. As one man wrote to me, "I read your book before I gave it to my wife. Honestly, I hoped it would

motivate her to become more involved with the family finances. Instead she said, 'You're doing a great job with our money and I'm not interested in this stuff.' "

Eventually, I got an e-mail that summed up the problem brilliantly. It came from a woman in Omaha, Nebraska, and it really struck a chord with me.

> *David [the woman wrote], after reading your book I became a super-sonic jet engine on a plane. I'm striving to go forward, to reach my dream destination. Unfortunately, my husband's jet engine is going full steam in reverse. I know that this plane (our financial plan) is going to crash. You can't fly with one engine going forward and one engine going in reverse. I don't know what to do. I'm thinking of bailing out before we crash. Any suggestions?*

It was this e-mail that made me realize I needed to write a personal-finance book for couples. As the woman in Omaha said, a couple's financial plan is a lot like a plane with two engines. If both engines aren't pointed in the same direction or working at roughly equal power, you are going to have problems. Without teamwork, financial planning for most couples becomes a battle, not a victory. And ignoring the problem will only make it worse, for every month those bills are going to show up, whether you want them to or not. There's no getting around it. The bills show up, the monthly stress hits, the arguments start—and next thing you know it's the next month with the same problems all over again.

IT'S TIME FOR THE TWO OF YOU TO TAKE CHARGE

So that's our basic premise: all couples should work on their finances

together. And when I say all couples, I mean *all* couples. Age isn't a factor. Whether you're a brand-new couple starting out in your early twenties or a retired couple in your seventies, the process of planning your finances together is one you can begin today. All that's required for you to do this is for you to receive the tools. And that's what I intend to give you in this book.

Much of what you will learn as you read the nine chapters that follow will seem incredibly simple. You may even find yourself thinking, "I know that. I've heard that before."

Don't let this make you feel complacent. When it comes to money, just having heard of something isn't enough; you've got to know what it means. And just knowing what something means doesn't matter if you're not actually doing it. For example, even though nearly everyone is familiar with the concept of "paying yourself first," most couples don't know how much they should pay themselves first, or where the money should actually go. As a result, they don't do it.

ONE PLUS ONE EQUALS FOUR

When two people work together to accomplish a goal, they can usually achieve it twice as fast as either of them would have working alone. This is certainly true when it comes to your money. The sooner you start working together, the more quickly you can dramatically improve your financial picture. The key is to truly believe that wherever you are starting from—no matter how bad or bleak it looks—things can and will get better. If right now you are badly in debt or living paycheck to paycheck, I am here to tell you, as someone who has personally coached thousands of people on their finances, that it can and will get better…if the two of you take action together.

By the same token, if you have already achieved financial success but

find that for some reason the money in your life is not making your dreams come true, I am here to tell you that you shouldn't give up—that you can align your values with your dreams and live a fulfilling life…if you and your partner work on this money stuff together.

HOW BEST TO USE THIS BOOK

Before we get started, I want to give you some tips on how to get the most out of what this book has to offer. To begin with, you should think of this book as a road map—specifically, your personal financial road map to a financial destination you will shortly choose. As you use this financial road map, I'd like you to think of me as your personal financial coach, a friendly guide who can help you find your way through the obstacles and lead you quickly to the wealth and happiness you deserve.

You should also keep in mind that though taking control of your finances can be both easy and fun, it does require a real commitment. As I noted earlier, even though they are purchased with good intentions, most personal-finance books don't get read past the first few chapters. So as you start this one, do yourself a favor—make a commitment to yourself that you will invest the few hours necessary to really read this book and put the nine steps to work. I promise you that as easy as these steps are, if you just "go for it" and really do them, they will change your life. As I often tell my students and clients, if you do just two or three of the steps, you will be better off than 80 percent of the population. If you do five or six of the steps, you will be better off than 90 percent. And if you do all nine steps, you will end up in the financial elite—living in the top 1 percent.

I've deliberately organized things so that each of the next nine chapters covers a single step of our nine-step journey. Although each step is self-contained, they all build on the steps that went before. So my suggestion is that you read the chapters in order. You might even consider reading each

chapter twice before you go on to the next one. Why read a chapter twice? Because when we're reading, we often miss something the first time around, and because repetition is the key to developing any skill.

One final suggestion: as you read this book, you may realize that you're not doing everything you should be doing with your finances. Don't use that as an excuse to jump all over your partner—or yourself. The purpose of this book is to improve your financial future, not to make you or your partner feel bad. As adults trying to make our lives better, we tend to be too hard on ourselves. If your financial life is not yet where you want it to be, that's okay—you're about to change that. Stay positive. Remember, the hardest part of changing things is…deciding to change. You've already made that decision. You've purchased this book and now you're reading it. So give yourself a break—and some credit.

The journey you and your partner are about to take together is meant to change your lives forever. So have fun with the process, and keep in mind that you've already taken the most important step toward controlling your financial destiny. You've decided to live smart and finish rich—together, as a couple.

Now let's get started!

LEARN THE FACTS AND MYTHS ABOUT COUPLES AND MONEY

John sat in my office smiling from ear to ear. Indeed, he was practically glowing. After putting in more than 40 years as a successful salesman at a printing company, he was just two months away from retirement. He had come to my office with his wife of more than 30 years, Lucy, to make some plans. Excited about getting started on this new phase of their life together, the two were interviewing me to see if I would be the right financial planner for them. As I usually do in such situations, I began the meeting by asking a simple question: "With only 60 days to go, what does retirement look like to the two of you?"

John leaned forward confidently. "We're moving to South Carolina, where we own some land," he said, "and we're gonna build us a little two-bedroom house on a lake and I'm going fishing every day!"

With that, he sat back in his chair, grinning like a schoolkid.

Lucy, however, had quite a different look on her face—a combination of anger and disbelief. Glaring coldly at John as if he were a stranger she was

meeting for the first time, she asked him, "And who are you planning to move to South Carolina with?"

Now it was John's turn to look shocked. "Well, with you, of course," he said meekly.

Lucy laughed out loud. "John," she said, "if you think I'm leaving our kids, our grandchildren, and our five-bedroom house in Danville so you can go fishing in Timbuktu, you've got a screw loose!"

John looked at me helplessly, then turned back to Lucy. "But we bought that land in South Carolina to build our dream house on when I retired. Remember, honey?"

"John, that was 20 years ago!" she snapped. "You haven't even mentioned that land in the last 10 years. I was hoping you'd forgotten about it!"

Peter and Mary sat in my office, both completely happy. The day before, after five years of meticulous planning, the two of them—both in their early fifties—had taken early retirement from their respective employers. That's right—two retirements from two separate companies on the same day! They had spent the previous evening celebrating, first at his retirement party, then at hers. The excitement they both felt was contagious. They reminded me of two teenagers who had just graduated from high school.

The couple had come to my office to take care of the paperwork for their 401(k) rollovers. Earlier in the day, they had met with their attorney and their accountant. Tomorrow, they would leave to fulfill a long-held—and long-planned-for—dream of theirs: to move to a village in Mongolia for two years as part of a church-sponsored program in which they would help build a new school for local children. An automatic payment program had been set up to take care of all their bills, their retirement accounts were fully and safely invested, and their expenses were covered for the next two years. Their kids were in college and the tuition payments were already arranged. Everything had been anticipated. Peter and Mary could

not wait to catch their plane and start living out their dream.

I've started our journey with these two contrasting stories because they are both true—indeed, they both occurred in my office during the same week—and, taken together, they illustrate just how differently different couples can plan for their future. I'm confident that the first couple, John and Lucy, is not the model you want to follow. The second couple may not be your ideal either (especially if, like me, your idea of retirement isn't an isolated village in Mongolia). But the reality is that Peter and Mary's future does sound exciting. That's because it involves a dream they planned together and are now getting to live together. You can't hear about their story without becoming excited for them.

If you are in a relationship right now and have a significant other you plan to be with for a long time, it stands to reason that you want to have a bright future in which you live and finish rich together. But being smart and finishing rich doesn't just happen. It takes real action and positive commitment on your part.

IT'S NOT JUST ABOUT MONEY...

Here's another important part of Finishing Rich that many couples overlook: it's not just about the money. John and Lucy have money. What they don't have is a plan for the second half of their life together. Although they've been married for more than 30 years, neither has a clue as to how the other expects to spend his or her golden years. John thinks he's going fishing, and Lucy wants to know who he's going fishing with.

Having served as a financial planner for countless couples over my career, and now having taught seminars for couples for over two decades, I can tell you from firsthand experience that way too many couples are like John and Lucy. They go through life without making any real plans for their future together; in many cases, they've never even discussed the

subject. Each just assumes that somehow the other knows (and agrees with) what he or she happens to want. The result is invariably a disaster.

Then again, I've also seen the exact opposite. Every day I meet and work with couples who have been married for years, sometimes decades, who really do function as a team…as one. They really do communicate about their money and they really do plan for their financial future—in other words, they are Smart Couples who are living and finishing rich. This is my goal for you.

THE FACTS AND MYTHS ABOUT COUPLES AND MONEY

The truth about money management is that it's not really that difficult. If you know what to do and what not to do, it's actually pretty easy. The challenge is that we're not taught about money in school. As a result, much of what we learn about it comes from friends, word of mouth, and marketing. This is why a lot of otherwise smart people spend their whole lives doing the wrong things with their money.

I often tell people it comes down to this…

It's not what you know about money—it's what you don't know that can wipe you out.

Since so much of what people have learned about handling money is actually dead wrong, a big part of becoming a Smart Couple who finishes rich is about unlearning what the two of you think you know about the subject. To do this, I'm going to share with you some of the biggest myths about money and couples. By understanding these myths for what they are, and learning the true facts, you will instantly be better prepared to make better decisions about your finances.

MYTH NO. 1

If we love each other, we won't fight about money.

FACT NO. 1

Money has very little to do with love...and a lot to do with how much you fight.

Repeat after me: love has nothing to do with money. It doesn't matter if you love your spouse or partner more than anything in the world. If the two of you have conflicting values about money and make financial decisions that fail to accommodate each other's feelings about the subject, you are going to have serious relationship problems.

Love does not conquer all. If it did, then one out of every two marriages would not end in divorce. Love usually gets you to the altar and creates passion for a few years, but a solid, long-lasting marriage takes more than just love. So please stop for a second and consider these basic facts:

1. How you spend money has nothing to do with how much you love each other.
2. The two of you were probably raised differently when it came to money.
3. The two of you probably value money differently.
4. The two of you probably spend money differently.

That's a lot of differences. So if the two of you happen to be fighting about money right now, I've got news for you: you're normal. And here's some even better news: you don't have to change who you are or what you value in order to finish rich. Nor do you need to become financial geniuses. As you will learn in this book, the things you need to do in order to become wealthy are basically quite simple. They don't require a lot of brains or education. They don't require positive-thinking exercises or memorizing mantras. All they require is what I call "positive action."

So if the two of you are fighting over money right now because your

attitudes toward it are different, that's okay. Take a deep breath, exhale,… and "let it go." By the time you're done with this book, you will see how quickly and easily you can transform both your lives and your relationship merely by following the nine simple steps I'm going to lay out for you. In the meantime, just remember—love's got nothing to do with finishing rich…nothing!

MYTH NO. 2

It takes money to make money.

FACT NO. 2

It takes very little money to make money…as long as you are patient and disciplined.

My grandparents had only a few dollars a week to invest. Nonetheless, over the course of several decades, they became wealthy.

I can see you rolling your eyes. That was then, you say; this is now. Well, not so fast. Let's look at the numbers. The nice thing about building wealth is that it's basically a numbers game, and the rules don't change much over time. Consider the following:

A DOLLAR IS STILL WORTH A LOT OF MONEY…IF IT'S FORCED TO GROW UP!

I want you to do an experiment. Go down to your local coffee shop one morning and for one hour count the number of couples buying cups of coffee. If it's, say, Starbucks, the price of a nice little latte will be about $3.50. If it's fancier—say, Blue Bottle—well, now we're talking $5 (or up to $16 for the special brew—I kid you not). Watch how many nice, normal people spend that much every morning on coffee. Have you ever stopped to think about what the cost of those little cups of coffee can add up to over time? How much could you make if you spent $1 less on coffee every

day and put what you saved into a good investment program? Let's take a look.

A DOLLAR A DAY CAN GROW UP TO BE $1 MILLION...

Here's what happens if you start making a dollar a day work for you.

$1 a day at 5% = $1 million in 99 years ("too long...won't work")

$1 a day at 10% = $1 million in 56 years ("start at age 7, you're a millionaire at 63")

$1 a day at 15% = $1 million in 40 years ("start at age 7, you're a millionaire at 47")

Now your brain is having a few thoughts. Okay, a dollar a day and compound interest are interesting and kind of neat, you are thinking, but where are we going to get annual returns of 5, 10, or 15 percent? (The answer is it depends; the stock market and or a combination of stocks, bonds, and other investments, and we'll cover that in detail later on.) Don't let the interest rate issue right now throw you. You will learn in this book the power of compound interest and the miracle of investing over decades. You're probably also thinking, "Hey, David, it looks great, but I'm not seven years old." That's right, you're not seven. But maybe you have kids who are. If so, do them a favor and show this to them.

Of course, that doesn't solve your problem. You're a lot older than seven, and try as we might, there's no way to turn back the clock. But there is a way to make up for lost time—namely, by kicking in more money. Since you're older than seven, you probably can afford to invest more than $1 a day. Let's see what happens if you put in a grown-up

amount.

$10 CAN TURN INTO A MILLION A LOT FASTER THAN $1

Here's a startling but probably true fact: if you can manage to save $10 a day, you can get rich.

I'll say that again: all you need to do in order to become wealthy over time is to commit right now to putting a fixed amount of money every day in growth investments. (Don't worry about what kind of growth investments; we'll cover that later on.)

$10 a day at 5% = $1 million in 54 years ("still doesn't work great")

$10 a day at 10% = $1 million in 34 years ("not quite so bad...we're getting there")

$10 a day at 15% = $1 million in 25 years ("that's really just around the corner")

Now let's go crazy. What if *both* you and your partner saved $10 a day?

$20 a day at 10% = $1 million in 27 years

$20 a day at 15% = $1 million in 21 years

There are no tricks here. Becoming rich is nothing more than a matter of committing and sticking to a systematic savings and investment plan. How you set up and run that plan is something we'll deal with later on in this book. For now, I just want you to focus on the fact that you don't need to have money to make money. You just need to make the right decisions—

and act on them. Check out the following chart on how to build a million-dollar nest egg.

BUILDING A MILLION-DOLLAR RETIREMENT ACCOUNT

Daily or Monthly Investments Suggested to Build $1,000,000 by Age 65.

10% Annual Interest Rate

Starting Age	Daily Savings	Monthly Savings	Yearly Savings
20	$ 4.00	$ 124.00	$ 1,488.00
25	$ 6.00	$ 186.00	$ 2,232.00
30	$ 10.00	$ 310.00	$ 3,720.00
35	$ 16.00	$ 496.00	$ 5,952.00
40	$ 26.00	$ 806.00	$ 9,672.00
45	$ 45.00	$1,395.00	$16,740.00
50	$ 81.00	$2,511.00	$30,132.00
55	$161.00	$4,991.00	$59,892.00

The purpose of this chart is to share with you how much money you should be saving, daily, monthly, or annually, with a rate of return of 10% to accumulate $1,000,000 by the age of 65.

THERE'S STILL TIME...EVEN IF YOU'RE IN YOUR FIFTIES

Wherever you are right now in your life, a little extra savings can go an amazingly long way toward building a sizable nest egg. Consider the

following simple plan for a couple in their fifties.

Say Jim and Maureen decide today to start using the Couples' Latte Factor (a technique we'll learn about in Step Four) to enable each of them to invest an extra $10 a day in their retirement accounts at work (a practice we'll discuss in Step Five). That amounts to an additional investment of $600 a month. Multiply that by 12 and we are now talking about a yearly increase in savings of $7,200. If they both start at age 50 and continue putting money away at that rate until they are 65, the results could be truly phenomenal.

Let's assume Jim and Maureen invest the extra money in a growth portfolio consisting of 75 percent stock-based mutual funds and 25 percent short-term bonds. With this sort of mix, historically a portfolio like this has earned about 8 percent. (It's not guaranteed, but that's what these investments have averaged for the last 20 years or so.) By the time Jim and Maureen reach 65, their extra savings should total nearly $195,000. And if their employers have a policy of matching, say, 50 percent of their retirement-plan contributions (which many companies today do), their total would be more than $293,000. Any way you cut it, that represents a helpful extra cushion for retirement. If they decide to work until age 70, the amount could grow to be more than $494,000.*

Remember, the truth is that…

…most people overestimate what they can do financially in a year—and underestimate what they can achieve financially over a few decades.

MYTH NO. 3

We don't make enough yet to be investors.

FACT NO. 3

Everyone makes enough to invest.

How many times have you heard someone say, “If only I could make a little more money, I could really get my financial act together”? How many times have *you* said it yourself? Ask most couples the source of their financial problems and they will tell you it’s that they don’t make enough money. The truth is that most couples don’t have an income problem; what they have is a spending problem. If you don’t believe me, think for a minute about how much you and your partner will probably earn over the course of your lifetime together.

To estimate how truly big a number this is, use the following earnings chart.

EARNINGS OUTLOOK

How much money will pass through your hands during your lifetime and what will you do with it?

Monthly Income	10 Years	20 Years	30 Years	40 Years
$1,000	$120,000	$240,000	$360,000	$480,000
$1,500	180,000	360,000	540,000	720,000
$2,000	240,000	480,000	720,000	960,000
$2,500	300,000	600,000	900,000	1,200,000
$3,000	360,000	720,000	1,080,000	1,440,000
$3,500	420,000	840,000	1,260,000	1,680,000
$4,000	480,000	960,000	1,440,000	1,920,000
$4,500	540,000	1,080,000	1,620,000	2,160,000
$5,000	600,000	1,200,000	1,800,000	2,400,000
$5,500	660,000	1,320,000	1,980,000	2,640,000
$6,000	720,000	1,440,000	2,160,000	2,880,000
$6,500	780,000	1,560,000	2,340,000	3,120,000
$7,000	840,000	1,680,000	2,520,000	3,360,000
$7,500	900,000	1,800,000	2,700,000	3,600,000
$8,000	960,000	1,920,000	2,880,000	3,840,000
$8,500	1,020,000	2,040,000	3,060,000	4,080,000
$9,000	1,080,000	2,160,000	3,240,000	4,320,000
$9,500	1,140,000	2,280,000	3,420,000	4,560,000
$10,000	1,200,000	2,400,000	3,600,000	4,800,000

Source: The Super Saver: Fundamental Strategies for Building Wealth by Janet Lowe (Longman Financial Services Publishing: United States, 1990).

So what does your number look like? How much money are you and your partner likely to earn over the next decade or so? What if you take that out 30 or 40 years? My guess is that your joint lifetime disposable income probably adds up to something between $2 million and $4 million. Not quite so "disposable," is it? I suggest that from now on you stop thinking of your earnings as disposable income but rather as what I call "critical" income.

The bottom line is that you and your partner are trading precious time in your life for this income. To me—and hopefully to you—that makes it critically important to ensure that you don't waste what you earn, but rather that you manage it efficiently and intelligently. The key to doing this is to start saving now.

MYTH NO. 4

Taxes and inflation are now under control.

FACT NO. 4

Taxes and inflation are never going to be completely under control.

There seem to be two huge economic fallacies sweeping America today. One concerns inflation; the other, taxes.

According to the inflation fallacy, the fact that inflation rates have been low since the early 1990s means we've learned how to control it. That's absurd. As I write this, the cost of housing in my community has doubled in just ten years. And the biggest example of inflation is healthcare and college education costs, which have more then tripled since the original version of this book came out. In my opinion, and in the opinion of most of the people I know, the cost of things that matter is going up tremendously.

The five-bedroom, three-bath house in which I grew up cost about

$100,000 when my parents bought it (brand spanking new in a nice area) a little over 40 years ago. Today, that same house goes for over a million dollars. That's the reality of inflation. The truth is that a great many crucial commodities and services are not going to cost less in the future. They are going to cost more. Think about what you drink. Let's use Budweiser (not saying you drink this, but let's just pretend). If you drank Budweiser 30 years ago, and you still do, does the beer taste any better? Nope. Does it cost more? Yep. Check this out—a Budweiser six-pack cost $1.36 in 1969. I was only three, so I wasn't drinking it, but you get the point. Everything costs more—even beer.

In a similar vein, many people assume that when they retire they will owe less in taxes because they won't be working. Really? Ask someone who's retired if they pay less in taxes than they used to. I'm very confident the answer will be no. Why? Because most of the income you will live on when you retire will be taxable. Specifically, when you pull your savings out of your deductible retirement accounts, you are probably going to have to pay income tax on those withdrawals. The same goes for the profits you've made on those annuities and insurance policies you've been funding for retirement.

The good news is that there is something you can do about it. Benjamin Franklin once said the only things in life that are certain are death and taxes. He was wrong. Death may be certain, but taxes can be delayed—and in the process reduced!

Many people pay way too much in taxes because they don't understand that there are many simple, legal ways to reduce their tax bite. One of the best involves a simple concept I call "pay yourself first." If you do it correctly, it can reduce your tax bill by thousands of dollars a year. We'll learn all about this concept in Step Five.

MYTH NO. 5

If we don't talk about money, everything will work out okay.

FACT NO. 5

If the two of you don't start talking about money, you'll more than likely die broke.

I'm a very positive person, but when it comes to Americans and wealth management, the facts are frightening. The rich are getting richer and the poor are going nowhere fast. According to Spectrem Group's Market Insights Report, there were about 11 million millionaires in the United States as of 2016—a record number!

Sounds like a lot of rich folks, right? Not when you consider that the population of the United States is about 330 million. Do the math. Only about 3.3 percent of us are millionaires.

So what?, you say. You don't have to be a millionaire to be doing all right—and most everyone else is still doing pretty well, aren't they?

Hardly. According to a recent Federal Reserve study, 46 percent of Americans couldn't come up with $400 in case of an emergency. Truly scary. What about baby boomers? According to a recent Fidelity Investments report, 48 percent of boomers are not on track for retirement. This is not that surprising, considering that AARP recently shared that the typical retirement account for a boomer reaching retirement is only $42,000. AARP goes on to say that 75 percent of Americans between the ages of 55 and 64 have less than $30,000 in savings. Seriously, reread that statement.

According to AARP, three out of four Americans approaching retirement have less than $30,000 in savings.

So what's the deal? How is that possible with stock markets hitting record highs and where investing tips seem to be featured on every magazine cover and television show. The answer is that while the economy as a whole might be humming along at a steady but anemic rate, most

people are not really taking advantage of the situation to accumulate wealth. Many Americans are still living paycheck to paycheck. People may be earning decent incomes these days, but most of us are not saving any money. And if we are saving, we are simply not saving enough.

Later on in this book, we will spend a great deal of time on how much money you and your partner will need to save in order to become wealthy and live rich. For now, rest assured that the average American is doing a pitiful job of saving for the future. So if the two of you feel like you're not doing enough right now to build a nest egg, there's no need to beat yourselves up about it. You are clearly not alone, and you probably do a better job than your friends.

Then again, your goal is not to be average. It's to live and finish rich, and that means doing what most other people won't do.

So where do you start? That's easy. As in so many other aspects of life, the place to start getting your finances in shape is at home. Specifically, you and your partner must learn to talk about money together. The reason I say this is that in most families money is something of a "taboo" subject. Relatively few of us grew up in homes where Mom and Dad talked freely about the family finances with each other—let alone with the kids at the dinner table. As a result, most of us have grown up knowing nothing about money, including how to talk about it—even with the person with whom we've chosen to spend our life.

SMART COUPLES TALK ABOUT MONEY ALL THE TIME

The fact that most of us are not raised to talk about money is a real tragedy. Show me a couple who doesn't talk about money and plan their finances together, and I will show you a couple headed for financial trouble—if they're not already in it. When you work together on your

finances, you can compound the results. When you don't, the same can be said for the mistakes you will invariably make. In general, two heads are always better than one. No matter what your specific goal happens to be, having a partner working on it with you, providing encouragement and ideas, makes achieving that goal much easier. More specifically, the two of you will probably find it easier to save more money together than either of you can save separately. Which leads me to one of the basic points of this book. Couples Who Plan Together Have a Better Chance of Being Happy Together

This, in a nutshell, is what this book is all about. By planning your finances together as a couple, you will significantly improve your chances of becoming wealthy and being happier together.

Of course, nothing worthwhile comes without some effort. Because of the need for cooperation, it can sometimes seem more difficult for a couple to make financial plans together than for a single person to do the job on his or her own. But that's misleading. The trick is to get on the same page early on and then move forward as a team. So the place to start is by sharing your feelings about money with your partner.

FIND OUT HOW YOUR PARTNER FEELS ABOUT MONEY

Being in a relationship is a funny thing. Once we find the person we've been looking for all of our lives, we begin to expect that this person should be able to "read" us. We think, "Gee, we know each other so well. I'm sure each of us knows how the other feels about *everything*."

We all do this. But consider the following questions: Do you really know how your partner feels about money? Do you know his or her values about money? In Step Two, you are going to learn a technique that will help you identify your values. In the process, you will discover how both you and

your partner really feel about money at a core level. But that's for later. Right now, simply ask yourself this: On a scale of 1 to 10 (1 being "money is the root of all evil," 10 being "money is more important to me than anything else"), ask yourself: How important is money to me? Then ask yourself: How important do I think it is to my partner?

Record your answers on the following chart by circling the numbers that apply.

Money = Evil									Money = Most Important
				YOU					
1	2	3	4	5	6	7	8	9	10
				YOUR PARTNER					
1	2	3	4	5	6	7	8	9	10

After you circle your own answers, ask your partner the same questions: How important is money to him or her? How important does your partner think money is to you?

How different were your responses from those of your partner? How different was your partner's response from what you expected it to be? How different was your response from what your partner expected?

The answers to these last three simple questions may lead to some very worthwhile conversations between the two of you.

I'M NOT SURE MY PARTNER WILL TALK ABOUT MONEY WITH ME

Many people find it difficult to bring up the subject of money with their partners. As a result, the subject often gets pushed under the rug—over and

over again. Maybe, they think, our money problems will just go away.

Trust me, they won't. They will only get worse. Dealing with financial matters is something any couple can do, but you've got to do the job yourselves, or it just won't get done. If the two of you don't make your finances a priority, they won't be one. Even if you hire a financial advisor, you've still got to make dealing with your finances a common goal that you both work toward together.

The couples who do the best financially are the couples who really work at it. They have done some soul-searching together, some dream-planning together, and they've put together a plan to make their goals and dreams a reality.

THE PLACE TO START IS AT HOME—THE TIME TO START IS NOW

The best way for the two of you to begin this process is by examining what each of you knows about your finances—and what you don't know. After all, before you can start planning how to get more out of your money and how to invest it wisely, you need to know exactly how much you've got, where it's currently parked, and just how accessible it is. You also need to understand what kind of financial commitments the two of you have—both separately as individuals and jointly as a couple.

To aid you in this task, I have created a simple true–false quiz that the two of you should take. Take it separately—and be honest with yourself—then compare your answers. The goal isn't to get a high score or beat your partner; it's for both of you to discover how accurately (or inaccurately) you understand your current financial situation.

THE "SMART COUPLES FINISH RICH"

FINANCIAL KNOWLEDGE QUIZ

TRUE OR FALSE:

T [ ] F [ ]

I know our current net worth (i.e., the value of the assets we have minus the liabilities we owe).

T [ ] F [ ]

I have a solid grasp of what our fixed monthly overhead is, including property taxes and all forms of insurance.

T [ ] F [ ]

I know how my partner feels about our monthly overhead. We have discussed both the size and nature of our regular expenses and obligations, and are comfortable with them.

T [ ] F [ ]

I know how much life insurance my partner and I carry. I know exactly what the death benefits are, how much cash value there is in our policies (if any), and what rate the money is earning (if applicable).

T [ ] F [ ]

I have reviewed our life insurance policies sometime in the last 12 to 24 months, and I am comfortable that we are paying a competitive rate in today's insurance market.

T [ ] F [ ]

I know the current value of our home, the size of our mortgage, the interest rate on the mortgage, and how much equity we have in our home. I also know the length of our mortgage-payment schedule and how much it would cost per month to pay down the mortgage in half the time.

OR

I know how much rent we pay, when our lease expires, how much of a security deposit we gave the landlord, and what renewal rights we have.

T [ ] F [ ]

I know what type of homeowner's or renter's insurance we have and what the deductibles are. I know whether or not our policy would provide us with "today's replacement cost" or actual cash value, if our home and/or property were destroyed or stolen.

T [ ] F [ ]

I know the nature and size of all of our investments (including cash, checking accounts, savings accounts, money-market accounts, CDs, Treasury bills, savings bonds, mutual funds, annuities, stocks and bonds, real estate investments, and collectibles such as stamps, coins, artwork, etc.). I also know where all the relevant paperwork is kept.

T [ ] F [ ]

I know the annualized returns of all the aforementioned investments.

T [ ] F [ ]

I know the current value of all of our retirement accounts (including 401(k) plans, 403(b) plans, IRAs, Roth IRAs, SEP-IRAs, company pension plans, etc.). I know where the statements for these accounts are kept and I have a solid grasp of how all our accounts performed last year.

T [ ] F [ ]

I know what percentage of our income we are saving as a couple.

T [ ] F [ ]

I know how much each of us is putting into our respective retirement accounts, whether that amounts to the maximum allowable contribution, whether our employers are making matching contributions, and what our respective vesting schedules are.

T [ ] F [ ]

I know how much money each of us will be getting from Social Security when we retire, and what our pension benefits (if any) will be.

T [ ] F [ ]

I know whether or not we have a will or living trust, what its provisions are, and how up-to-date it is.

T [ ] F [ ]

I know whether our income would be protected by disability insurance should I or my partner become unable to work. If we do have disability insurance, I know the amount of the coverage, when the benefits would start, and whether they would be taxable. If we don't have disability insurance, I know why we don't have it.

T [ ] F [ ]

I know what my partner's wishes are regarding medical treatment (including being kept alive by artificial means) in the event he or she falls seriously ill or is seriously injured. I know whether or not our will includes a valid power of attorney covering such situations. I also know how my partner feels about being an organ donor. I know the online passwords to my partner's key online assets (or will know how to get those passwords).

T [ ] F [ ]

I know if my partner has taken an investment class in recent years.

T [ ] F [ ]

I know how my partner's parents handled their finances and I know what effect that has had on how my partner feels about how we manage our money.

SCORING:

Give yourself 1 point for every time you answered "True," and 0 for every time you answered "False."

14 to 18 points. Excellent! You and your partner obviously have been planning together, as a result of which you have a good grasp of the state of your finances and how you both feel about money.

9 to 13 points. The two of you are not totally in the dark, but there are some areas in which your knowledge is less than adequate.

Under 9 points. You and your partner don't make a habit of talking about money, do you? As a result, your chances of being hurt financially because of insufficient knowledge are enormous. You need to learn how to work together in order to protect yourselves from future financial disaster.

If you scored well on this test, congratulations! But don't go out and start celebrating just yet. Even among knowledgeable money managers, it's rare to find people who have a handle on *every* aspect of their own finances and what they could and should be doing to assure themselves secure futures. So even if you scored 12 or above, I guarantee you'll discover a few secrets and ideas that will be of enormous value to you.

SO MUCH FOR THE BAD NEWS...FROM HERE ON IN, IT'S ALL "GOOD"

If taking this quiz—or reading some of the myths and facts about money I presented earlier in this chapter—has left you feeling a little bummed out, I apologize. I personally can't stand negativity. In fact, I make it a policy to stay away from negative people. I believe they are like people with colds or the flu: if you spend too much time with them, you run the risk of "catching" what they have (i.e., their negativity).

But I started off this book with some cold, hard reality because I know that, as a couple, you want your life to be truly amazing. You want to live and finish rich, and you want to realize your dreams. You don't want money to hold you back; rather, you want it to lift you up. You believe in your relationship, and you believe in yourself, and you know deep down that you're smart enough to figure out how to make it all work for you.

Perhaps most important, you're looking to make a change in your life. That's why you purchased this book—because you are truly motivated to change for the better. But change takes action, and sometimes it takes pain to get motivated enough to take action. Sometimes it takes getting to a point where you say to yourself, "I've had enough. I want more out of life." Or you say, "Enough is enough, I'm not going to continue down the path I'm on."

Change is a funny thing. Although most people say they want to change —so they can have a better life, with more love, more dreams, and more fun—the fact is that many of us are afraid of change. Faced with the real prospect of it, we look at our lives and decide that being where we are right now isn't so bad, after all. Better the devil you know than the one you don't, we tell ourselves. Tony Robbins, the great motivational speaker and coach, calls this attitude a kind of "no man's land" of the soul. It's a place where your life isn't really that great, but it really isn't that bad, either. It's just so-so.

Well, I happen to think that life should be better than "not that bad" and more than "just so-so." Life should be exciting, challenging, and—ultimately—fulfilling.

By now, I hope this chapter has motivated you to start the process of taking action. Don't let those negative statistics I mentioned get you down. Remember, those averages don't have to be your reality. After all, you and your partner are not average! So stay motivated.

Now let's turn to Step Two, and continue your process of learning how to figure out what matters most to you and your partner when it comes to

money.

---

*To run your own calculations go to www.investor.gov and search “compound interest calculator”—if you want to see what lower rates or higher rates would look like, plug them in.

DETERMINE THE TRUE PURPOSE OF MONEY IN YOUR LIFE

As a financial advisor, I specialize in doing what we call **Purpose-Focused Financial Planning™**. What this means is that before I start trying to figure out how much money my clients may need for their future, I first help them try to get a clear idea of what they see as their purpose in life.

This concept often surprises people. The media and the investment industry have gotten us so focused on what they call "retirement planning" that everyone thinks personal finance is all about determining how much money you need at retirement. In fact, most people assume that when they meet with a financial advisor or planner the conversation should focus on specific investments, net worth calculations, tax rates, and how many years they will have to work before they can retire. While all these things are important, they are not what is most important. What I believe is most important is first having a conversation about what it is that matters *most to you*. What is it that you stand for and what is it that you care most deeply about? In other words, what are your values?

YOUR LIFE VALUES SHOULD DETERMINE EVERY LIFE DECISION YOU MAKE

Stop for a second and really think about it: is there anything more important to you than your values? Where you live, how much you spend, what you focus your time and energy on—all are affected by your values. Your values color how you communicate with your partner, how you raise your children, and how you feel about what you have in your life. Your values can determine how hard you are willing to work to achieve your financial goals, how much money you currently spend, and how much money you will actually need at retirement. This is why I can tell you with total certainty that once you have a clear picture of what you value most in your life, you'll be able to create a truly meaningful Purpose-Focused Financial Plan.

To this end, Step Two of our journey to finishing rich involves learning how to understand what your values really are. Once your values are clear to you, it will be easy to decide what kind of "stuff" you want and what sort of things you want to do (which we will cover in Step Three). Perhaps most important, once you and your partner have clearly and specifically defined your values, you'll find yourselves much more motivated to put in the effort it takes to stick to your new Purpose-Focused Financial Plan.

The best way to explain the process of defining your values is to give you a peek at what it looks and sounds like when I explain the concept at one of my seminars.

LIVE FROM HAWAII—A "SMART COUPLES FINISH RICH" SEMINAR!

Recently, I gave a "Smart Couples Finish Rich" seminar in Hawaii. The event was held on behalf of a company that wanted to reward its top

employees and their spouses or significant others. When I walked into the seminar room, I found it filled with couples ranging in age from their mid-thirties to their mid-sixties. Some were newlyweds, while others had been together for more than 30 years and had multiple kids and grandchildren.

I began the seminar by introducing myself and then asking a question. "My goal," I told the group, "is to share with you how you can do two things: (1) live rich, meaning live a life in line with your values, and (2) finish rich, meaning be able to retire with at least a million dollars in liquid assets."

Then I asked my question: "How many of you are basically in favor of both living and finishing rich?"

Just about everyone in the room laughed and raised their hands.

I then told them what I just told you at the beginning of this chapter—namely, that in order to figure out a sensible and meaningful plan for living and finishing rich, we first need to understand what our values are. "To do this," I said, "let me ask you all a really simple question:"

"WHAT'S THE PURPOSE OF MONEY IN YOUR LIFE?"

"When you think about money in the context of your life and the things that are important to you, what purpose does it serve?"

The room was pretty much silent, so I repeated the question in a slightly different form. "When you think about the way you live, what are the values that money enables you to fulfill?"

Most everyone was still looking at me blankly. "Okay," I said, "I'm going to help you out a little bit with a cheat sheet." Using an overhead projector, I showed them a list of values. It included words and phrases such as "freedom," "happiness," "love," "health," and "making a difference."

"These are some examples of values," I explained. "Now let's see what each of you can come up with. When you think about your lives, what values are important to you? What is it that you're looking for in life?"

A woman in her early thirties raised her hand. "Teaching my children how to be good people," she said.

I turned to the whiteboard and wrote that down.

Then her husband chimed in. "Security," he said. "Knowing we are secure and our family is safe."

I wrote that down, too. "What about the rest of you?" I asked the group. "What is your purpose for being here on this planet? Why do you think you're here?"

"To have fun!" called out a woman in her fifties.

"Freedom!" a man shouted. "I want the freedom to do what I want to do when I want to do it."

"Yeah," agreed another man. "Like having the freedom to stay in Hawaii for more than five days."

Everyone laughed. " 'Having fun' and 'freedom' are values," I said, "but staying in Hawaii for more than five days is more of a material goal. The question is, if you could stay in Hawaii longer than five days, what value would that allow you to live by?"

The man's wife grinned broadly. "Viagra!" she shouted.

Now the room was cracking up. This guy turned bright red, and so did I. "Actually," I said, "you may be on to something. Maybe staying in Hawaii longer than five days would be good for your relationship. So the value here might be passion, love, or romance."

"Forget about romance," called out a sandy-haired man named Tom. "Staying in Hawaii more than five days would mean I could play more golf. That's what I want to do with *my* time."

I wrote "golf" on the whiteboard, but then I circled it. "Golf is a goal," I said to Tom. "The question is, what values does golf allow you live by?"

Tom shrugged. “Well, I don’t know,” he said, “but it’s fun.”

I wrote down the word “fun,” then turned back to the group. “How many of you play golf?” I asked.

More than half the people in the room raised their hands.

“Okay,” I continued, “those of you with your hands up, what values does golf provide you with?”

A fit-looking woman in her forties stood up. “It gives my husband and me a chance to spend four consecutive hours together,” she said. “So it’s a great way to have quality time with each other and also be outside doing something healthy.”

“Great,” I said. “So what values are those?”

“Well, for me, I guess it’s the values of marriage and health.”

“And the values of marriage and health are important to you?” I asked.

She nodded, and I wrote “marriage” and “health” on the board.

Then another woman spoke up and said, “I think spirituality is an important value. I think it’s important to have a spiritual life.”

So I wrote down “spirituality.”

Yet another woman joined the conversation. “I like to spend time helping others and making a difference,” she said.

No sooner had I finished writing down “make a difference and help others” than someone else called out another value, followed by another person, and then another. Within 10 minutes, we had filled two entire whiteboards with something like 30 examples of values people in the room said were important to them.

When things finally quieted down, I let everyone just look at the list of values for a minute. “That wasn’t so hard, was it?” I asked.

Most everyone nodded in agreement.

“Well, now let’s try something else,” I continued. “Instead of coming up with values, let’s think about the kind of stuff you want. What material things would you like to have that money can buy?”

The room just about exploded. “I want a new car!” a man called out. “No, jewelry!” his wife shouted. Everyone laughed. “That’s right,” another woman said. “More jewelry!” Then a second man said he wanted a new boat, followed by a woman who said she wanted a new kitchen. The guy who’d earlier talked about golf said he wanted to play more golf. And the woman who had mentioned Viagra yelled, “More Viagra!”

By now everyone was laughing and having a good time. And the suggestions kept pouring out. Whereas it had taken us a little more than 10 minutes to come up with 30 or so values, it took us less than three minutes to compile a list of maybe 30 different kinds of “stuff” that people wanted to buy.

“You know,” I said, “it’s always interesting to me how easy it is for us to list the kind of stuff we want to own versus the kind of values we want to live by. Yet the truth is that it’s a lot more important to understand what your values are and to live your life by them than it is just to have stuff. Unfortunately, too many of us spend our lives pursuing stuff, without really looking at our values. And you know what that leads to?”

“Credit-card debt!” a woman called out.

We all laughed. “Well, that too,” I said, “but actually I was thinking of something even more serious that happens when you spend 20 years focused not on your values but on getting more stuff. What happens is that it leads to a midlife crisis, which generally leads to all sorts of unhappiness, including divorce. The truth is that most midlife crises occur because people get to a certain age with all this stuff they’ve accumulated and suddenly it hits them that their stuff isn’t really making them happy—that this stuff they’ve spent all this time and effort getting is actually the wrong stuff.”

I went on to explain that this almost never happens to people who’ve got their values straight. “After all,” I told the group, “how often does someone get to their fifties and look around and say, ‘Well, I’ve lived my life in line with my values, but now I don’t think I like my values anymore,

so I guess I'll get divorced and start over'? Hardly ever."

In short, I concluded, values are the key to living smart and finishing rich. The sooner you and your partner start putting your values first—and stuff second—the sooner the two of you will start living a life that excites and empowers you both. That's because when you understand your values, you tend to live the life you really want almost automatically. Instead of having to "motivate yourself" to do the right things, you find yourself being pulled in the right direction by the power of your values. Stuff may be nice, but it rarely pulls us anywhere worthwhile. Only values can do that.

WHAT'S REALLY IMPORTANT TO YOU?

As a financial advisor, I've learned that when all is said and done, money is good for three basic things. It helps people…

1. Be
2. Do
3. Have

Let me explain what I mean by this. When I say that money helps people be, I mean that it allows them to live in a particular way that defines who they are. When I say that money helps people do, I mean that it makes it possible for them to take actions that will help create the kind of lives they think they want. And when I say that money helps people have, I mean that it enables them to buy stuff.

Now, in an ideal world, the lives we lead, the things we do, and the stuff we buy would always be in line with our values. The challenge as I see it is that most people focus first on the "having," second on the "doing," and third on the "being." Which means that many people, even ones who use financial planners, go about it all backward. Even worse, many people

never even get to the "being" part. They spend so much time on the "having" and the "doing" that they never look up to see whether who they are is who they want to be.

In order to create a sensible Purpose-Focused Financial Plan, you must understand what money means to you, what values it can help you achieve. Once you know this, you can quickly focus your time and energy on what matters most to you—not what society, friends, or advertisers say matters, but what *you* say matters. To put it another way, the process is basically a matter of looking really deeply at what is most important to you, and then planning your finances around that. If it sounds like we're talking about more of a life-planning process than just a money-management process—well, quite frankly, that's what smart financial planning is really about.

WHY MOST FINANCIAL PLANNING TOOLS DON'T WORK

Consider this scenario. You are 45 years old, your income is currently $50,000 a year, and you've got $25,000 in the bank. You come to see me for retirement advice, and I plug those numbers into my fancy retirement-planning software. A nanosecond later, my computer tells me that you will need a lump sum of $1.5 million in order to be able to retire comfortably at age 65.

While you stare in disbelief, I ask my program what kind of savings and investment program you're going to need to set up in order to accumulate a lump sum like that. The computer hums silently, then tells us that if you can create a portfolio that generates an annual return of 8 percent, all you need to do to build an after-tax nest egg of $1.5 million is invest about $40,000 a year for the next 20 years.

"But, David," you say, "I only *make* $50,000 a year—and that's before

taxes."

"Hmm," I say, frowning. "That's a problem." I think for a moment, then brighten. "Well, don't worry. We'll just give your investment portfolio a higher return—say, 15 percent a year." I plug that into the program, and the computer decides that under these circumstances, you will need to save just $17,000 a year.

"But David," you say, "there's no way I can invest $17,000 a year—and, anyway, a 15 percent return is just not realistic."

"Oh," I reply. "I guess you've got a point." I think for another moment. "You know," I finally say, "any chance of an inheritance?"

Don't worry, I'm not really that ridiculous with my clients. The reason I created this scenario is to illustrate what can happen if you do financial planning strictly by the numbers, instead of by the life. What can happen is that you can all too easily convince yourself to not even bother trying. I constantly meet people in their fifties who gave up on their financial future in their late thirties because they felt it was already too late for them and there was no hope. That's sad, because it's never too late.

The point is that smart financial planning is more than a matter of numbers. It involves values first and stuff second. Let's say you value security, but you and your partner are constantly spending more than you make as a couple. As a result, the two of you are living paycheck to paycheck. In other words, you are living your lives in massive conflict with your values, which creates massive stress. In a relationship, this can result in constant fighting and an end to passion.

Now, situations like this don't just happen. They are the result of repeated decisions and actions (like regularly spending too much money) that conflict with your value system. Your financial behavior simply doesn't match your personal values.

And don't think the problem is simply that you're not making enough money. Let's say your value is freedom, which to you and your partner means having the time to exercise every day and go on long walks

together. Unfortunately, what you're actually doing is working 60 hours a week, which means you never have a chance to exercise or see your partner. Now, you may be enjoying financial success (in the sense that you're making a lot of money), but how likely is it that you're happy? Not very, because your life doesn't match your values.

Or consider this common dilemma. Your top value is family, but you are so busy working in order to be able to meet your mortgage payments that you never actually see your spouse and kids. Someone talked you into buying a bigger home than you could afford, and now you are paying the real price. No one (including you) considered your values when you purchased the house. Unfortunately, when you make big life decisions like that without considering your values, what you end up with is stress and unhappiness. No one wins.

So how do you get a clear picture of what it is you are looking for in life? Well, the good news is that you don't have to go into deep therapy, meditate, or be hypnotized. You don't have to delve back into your past and find out where you went wrong. You don't have to recite mantras 10 times a day in front of a mirror. All you need to do is decide what you think your top five values are, write them down, and then start planning your life around them.

What is great about this process is that it's really not that difficult. In fact, it shouldn't take you more than 10 minutes or so. The reason it is so easy is that most people actually have a pretty good feeling—what I call "gut knowledge"—about what their values are. And to help you along, I've devised a simple technique using something I call the Value Circle™.

To get a feel for how this works, I'm going to let you eavesdrop on a real-life Purpose-Focused Financial Planning conversation I had with a client. By listening in, you should get a good sense of how the process works. Once you do, I'll show you how to create a Purpose-Focused Financial Plan for yourself.

CONSTRUCTING KIM'S VALUE CIRCLE

Bill was 38; his wife, Kim, was 35. They had two little girls, ages 5 and 7. I started the conversation as I always do in such situations, asking, "Who wants to go through the Value Circle first?"

Kim immediately looked at Bill and then back at me. "I do," she said.

I nodded. "You know we're going to talk about money today," I began, "but before we do, let's talk about your values. When you think about your purpose in life and the things that really matter, *what's really important to you?* Specifically, what do you feel are the top five values you'd like to start focusing your time and energy on over the next 12 months?"

Having already attended one of my seminars, Kim didn't need a lot of prompting. "Definitely one of my biggest values is security," she said. "I was raised in a family that never had enough money, and I'm constantly in fear of not being able to pay our bills. So one of my top values is security."

I wrote down the word "security." "Now let's assume you had security in your life," I said. "What would be so important about having that security?

Kim said, "Well, if I had security, I would know that my family is always safe—that if anything happened to me, the girls would be taken care of. That is really important to me."

"So would you say family is a top value of yours?" I asked.

"Definitely," Kim said.

I wrote down the word "family." "And what's important about family to you?"

Kim smiled. "We have the most wonderful, beautiful girls, and I want to see them grow up to be happy, well-adjusted kids and, eventually, happy adults."

"Okay," I said, "let's see if we can turn that into a value you can focus

on. Assuming your value of family is fulfilled and you raise great kids, what else is important to you?"

Kim immediately looked at Bill and squeezed his hand. "Well, Bill, of course," she said. "I want us to have a happy, lasting marriage like our parents did, where we grow old together. We already have friends who are getting divorced, and I don't want that to happen to us. So definitely a major value of mine is a strong marriage."

Bill smiled back at her.

"So one of your top five values is marriage," I said. I wrote that down, too. "Now let's say you are living in a way that really expresses your values of security, family, and marriage. What else is really important to you? If you were fulfilling those top three values and you could add two more to your Value Circle, what would you want to focus on?"

Kim looked hesitant. After a moment, she glanced at Bill. "Any ideas?" she asked.

I shook my head. "We'll get to Bill's values in a minute. Right now it's still your turn. If you could focus your time, energy, and passion on two more values, what would they be?"

Kim sighed and said, "Well, I guess I would also want to focus on my weight. I've gained about 20 pounds since I first had kids, and I feel bad about it. I know I need to lose weight, but I never seem to have the time to exercise, so let's put down exercise."

Again, I shook my head. "Exercise isn't really a value. It's something you do. Think about it this way: what's a value that exercise would promote?"

"Health," Kim said with certainty. "Health is definitely a top value I need to focus on."

"Health," I echoed, writing it down. "Great. And if you had health, what would be the last of your top five values?"

Kim frowned in concentration. "That's a tough one to answer. I think if

I had really great health and all of those other values…I don't know—I guess I'd want to spend some of my time just having more fun."

"Well, fun is good," I said. "What does that value 'fun' mean to you?"

"Well, before Bill and I had kids, we used to be more spontaneous. We would go away on weekends and travel more. We had dates together. We did more things with our friends. It seems like a long time ago, and I'm not complaining because I love being a mom, but between my job, Bill's job, our house, and our two daughters, it doesn't seem like we have much time for ourselves anymore. I'd like to think there could be a way for us to start planning more fun time together."

"So fun would be a value you'd like to focus on?"

Kim nodded vigorously. "Fun sounds great. Let's definitely put that down as a value." She paused for a moment. "You know," she added, "I also really value my career, and we haven't put that down. Can we add career, too? Because I really want to focus on that, too."

"Kim," I said, "we can put down whatever you want. But for the purpose of this exercise, ideally I'd like you to focus on your top five values. So far we've put down security, family, health, marriage, and fun. Is your career an important enough value that it should replace one of these?"

She thought for a moment. Kim worked for a software company that had recently gone public, and she earned a decent income. "To tell you the truth," she said finally, "if I focus on my career, the value of security is going to be taken care of. So I think I'd almost rather substitute career for security."

"Okay," I replied, "but let me ask you something. Is it your career that you value, or is it the security that your career brings you?"

Kim didn't hesitate. "Both," she said. "I consider it one value."

"Perfect," I said. "We'll put 'security/career' as one value in your Value Circle."

CONSTRUCTING BILL'S VALUE CIRCLE

Now it was Bill's turn. He laughed when I gestured for him to start. "Can I just say 'ditto'?" he asked.

"No, Bill," I said with a smile, "you can't just say 'ditto.' "

"Well, you know," he replied, "Kim and I do have a lot of the same values."

"I'm sure you do," I said. "But we still need to do this. You need to think this process through, hear yourself talk about your values, and then see them written down on paper. So just play along for five minutes, okay?"

Bill nodded. "The truth is," he began, "when I think about all these things we're talking about—values and purpose and money—security isn't really something that I'd put at the top of my list. I know we'll always have a roof over our heads. We're making decent money and I'll always be able to find work." Bill was a contractor, and with the economy booming, his firm had more clients than it could handle. "What I really want is more freedom," he said. "My business requires me to work six days a week, watch over a crew of 20 men, and deal with all sorts of headaches. I want more freedom in my life."

"Okay," I said, "let's put down 'freedom.' Now, assuming you had more freedom in your life, what would your next value be?"

"If I had more freedom, I would have more time. That's what I really want, you know—more time to do what I want to do, when I want to do it."

"Which would be what?" I asked.

Bill shook his head sadly. "I used to windsurf and play golf, and now I don't do either. You know, I haven't picked up a golf club in three years. That's pretty sad when you think about it. My company is doing well, but I don't have any time to do anything but work."

I nodded sympathetically. "And if you could play golf more and windsurf more," I asked, "what value would that promote in your life?"

"Well, just like Kim, I'd like to have more fun again," Bill said. "We are both doing well, we have a nice home, we've got two gorgeous girls, but we don't ever do anything fun anymore. Our life is boring."

"So what's the value, Bill?"

He looked at me and almost bounced out of his seat. "Excitement!" he boomed. "I want more excitement in my life."

Kim laughed. "Sure you do, Mister-watch-television-every-night-exciting-guy."

I had to laugh a little, too. "Okay," I said, "let's put down 'excitement.' Now what else, Bill? If you had freedom and excitement in your life, what other values would you want to be living by as well?"

Bill looked over at Kim. "Well, definitely family and marriage. But I consider those one value. To me, if I have a good marriage I'm going to have a good family. And if I don't have a good marriage, it's going to be hard to have a good family. So let's put them down as one value."

I nodded and did as he asked.

Then Bill turned a little sad. "You know what my next value would be?" he asked. "It would be friends. I barely see my buddies anymore. I've got all these great friends, and we almost never talk or do anything together anymore, we're all so busy with our families. I really miss going out with them every once in a while, and shooting the bull." ("Bull" wasn't exactly what he said, but you get the idea.)

I wrote down "friends." "You've got one more, Bill," I said. "What other value is important to you?"

"That's easy," he replied. "My parents. They live about a thousand miles away, and they can't really afford to visit very much, so my kids hardly ever get to see their grandparents. I'd really like to make an effort to talk to them more and see them more."

"So is 'parents' a top-five value for you?" I asked.

Bill looked at Kim. "I know we're really busy, honey, and the money is a little tight, but I do need to figure out a way to focus some more time on them. You know, they're not going to be here forever."

"Of course, that's fine with me," she said. "But you know, it's not just about us taking a trip to see them. There is a phone in our house, they have e-mail, and you can also write letters."

"I know," Bill said, almost guiltily. "You're right." He turned to me. "For now, let's put down 'parents.' "

"Great," I said. "Then you're done."

DOES YOUR FINANCIAL BEHAVIOR MATCH YOUR VALUE CIRCLE?

Now, while I was writing down Kim's and Bill's values, I wasn't just making a list. I was creating Value Circles for each of them. Here's what they looked like (see this page).

Notice that I wrote down Kim's and Bill's top five values not in a column but in a ring. There's a starting point to this ring, but there is no ranking. That's because we don't want to suggest that any one particular value is more important than any other. This reflects the fact that if you don't put a fair amount of effort into *all* of your top values, your life can become unbalanced. For example, we all know people who are great at creating security in their lives (that is, making lots of money) but who wind up getting divorced, their kids hating them, their physical condition a wreck—all because they didn't spend enough (or any) time cultivating any other values, like family, or fun, or health. The Value Circle not only allows you to see—and as a result, think about—what your top five values are, it also serves to remind you how important balance should be in your life.

Now, what does all of this talk about values have to do with money? Well, let's look at what we discovered when we compared what Kim and Bill said were their values to the way they were actually living their lives. The first value Kim mentioned as being important to her was security. When I pressed her on the subject, she explained that what she really wanted was to know that her kids would be protected if anything happened to her. As it turned out, however, when I looked into Bill and Kim's financial situation, I discovered that they had never bothered to draft a will or set up a trust, and that while they did have life insurance, they hadn't bought nearly enough coverage. In short, they were hardly living by their values of security and family.

When I pointed this out to them, they looked embarrassed. "Yeah," Bill said, "we know we've needed to do something about this. We've just procrastinated. Pretty dumb, huh?"

"Actually," I said, "it's perfectly normal. Wills and life insurance are almost always a 'do' item. Hopefully, now that you've looked at your values, they will become a 'must do' item, not a 'shoulda, coulda, woulda' item."

In a similar fashion, we worked through all the values they listed—looking to see whether their financial behavior was consistent with what they had identified as being most important to them. For example, when Kim admitted that the reason she wasn't working out was because she didn't feel like spending $50 a month on a gym, I pointed out that $50 a month was a small price to pay for a top-five value.

By the same token, when Bill thought about spending time with his friends, he realized that the main reason he didn't do it as often as he liked was because he always thought of it in terms of a major "guys' weekend," and most of his friends couldn't get away for that long or didn't want to spend the money. "You know," he finally said, "I don't know why I make such a big deal about this. I could just organize a monthly golf Saturday. We all like golf, and we can go to a public course." He grinned at Kim and

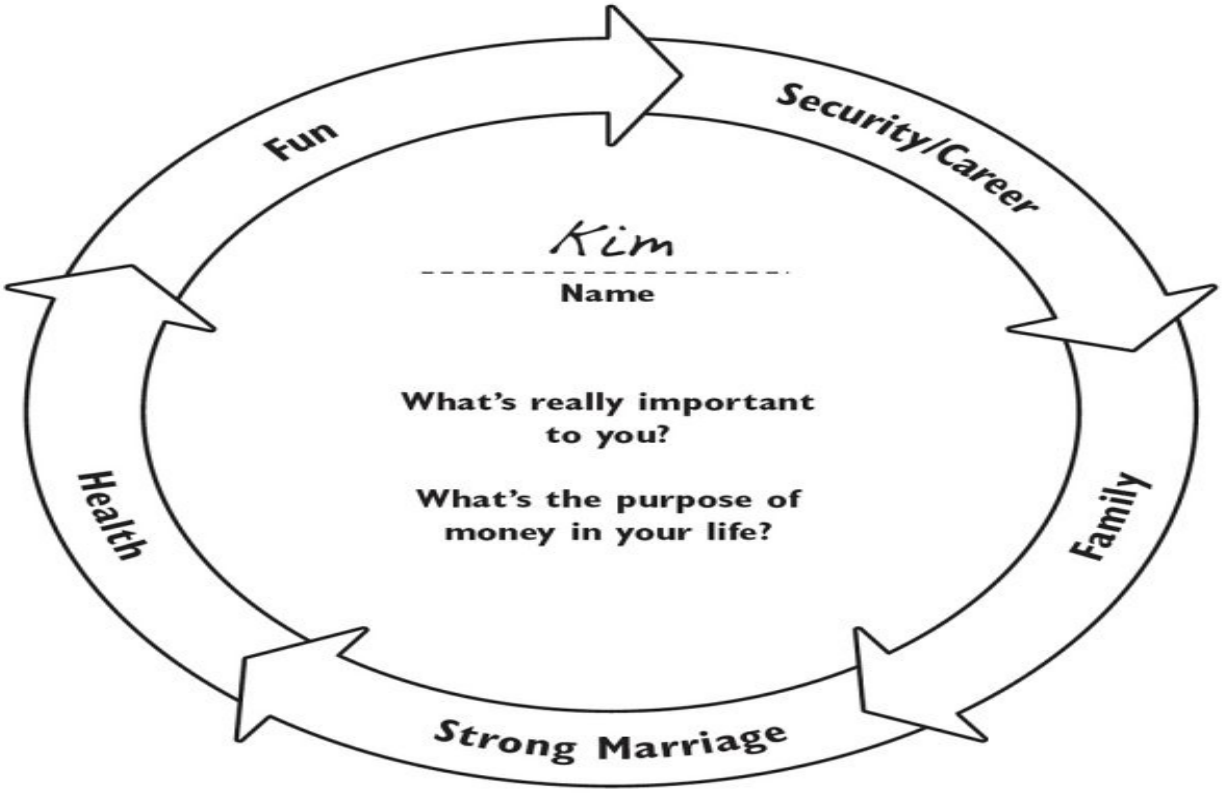
me. “That gives me two values—friends and excitement—for the price of one.”

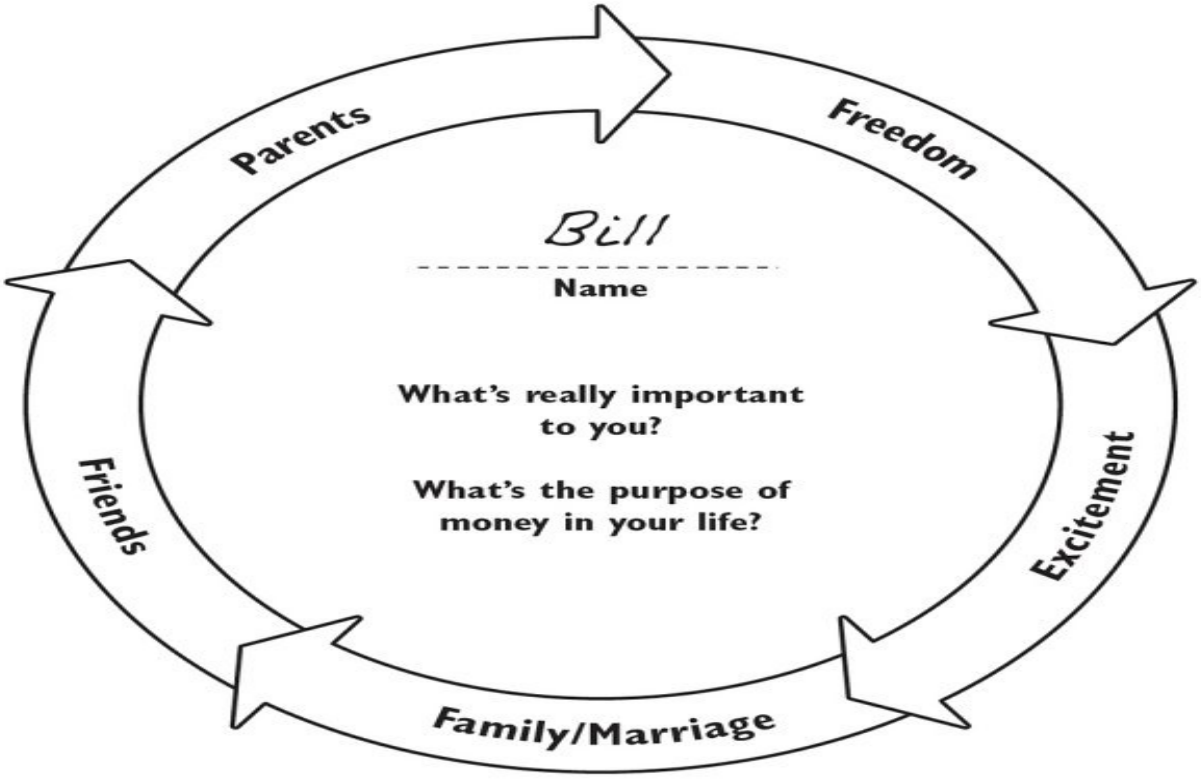
“That’s called value synergy,” I said. “Often, promoting one value also helps fulfill another.”

Kim, who had been sitting silently, lost in thought, suddenly spoke up. “Bill,” she said, “you know how we’re always complaining that we don’t go anywhere because our big vacation costs so much?” She looked at me. “We generally take one big trip each year,” she explained. “Last year we actually spent $5,000 going to Hawaii.” Then she turned back to her husband. “You know, I’d almost rather go on three or four little weekend trips than a single big one. We could even just go camping. We’d get away more, we’d have probably the same amount of fun, and we’d spend a lot less money.”

Kim went on to say that what she called “that ‘spending money’ thing” was a major source of stress for her and Bill. “I think we spend a lot more money than we need to,” she said. “That’s another reason I think we work so much. I’d like to see us get our expenses under better control so we could figure out a way to focus more on the things that matter to us—all this stuff we listed on those Value Circles.”

THE VALUE CIRCLE ™





KIM AND BILL'S BREAKTHROUGH

Kim and Bill got more out of the Value Circle process than just a few general ideas of things they needed to do. They actually got a complete, detailed Purpose-Focused Financial Plan. This consisted of a sheet of paper on which we listed the five values each had decided to focus on over the coming year. Next to each of the values, we wrote down five matching "do" ideas—that is, actions they needed to take in order to bring the way they lived their lives more into harmony with their values. (We'll cover how to do this in the next chapter, Step Three.) And next to those "do" ideas, we wrote down matching "have" ideas—that is, specific material goals that living according to their values would allow them to achieve.

This process may seem simple, but don't be fooled. It can also be very powerful. Indeed, within five weeks after completing their plan, Bill and Kim finally had a lawyer draft a will for them—something they had talked about doing for nearly five years but never managed to get around to. They also increased their life insurance coverage. Kim joined a gym. Bill planned his first golf Saturday with his buddies. And they worked out a plan to cut back on their spending.

The point is that doing this simple exercise got them to focus on what really mattered to them in life—to see through the clutter so they could concentrate less on having and more on being. Money is great to have, but all the money in the world won't make you happy if what you do with it conflicts with your values.

CREATING YOUR OWN VALUE CIRCLE™

With this in mind, let's start to create your own Purpose-Focused Financial

Plan™ by creating a Value Circle™ for both you and your partner. Although you can each do this exercise separately, it's much better to do it together. That way, if one of you gets stuck, the other can act as a prompter, asking questions such as "What does this value mean to you?" and "What's important about this value to you?" and so on.

So let's get started!

Pretend the two of you are arriving at our offices at AE Wealth Management. You're going to meet with me in order to create your own personal Value Circle.

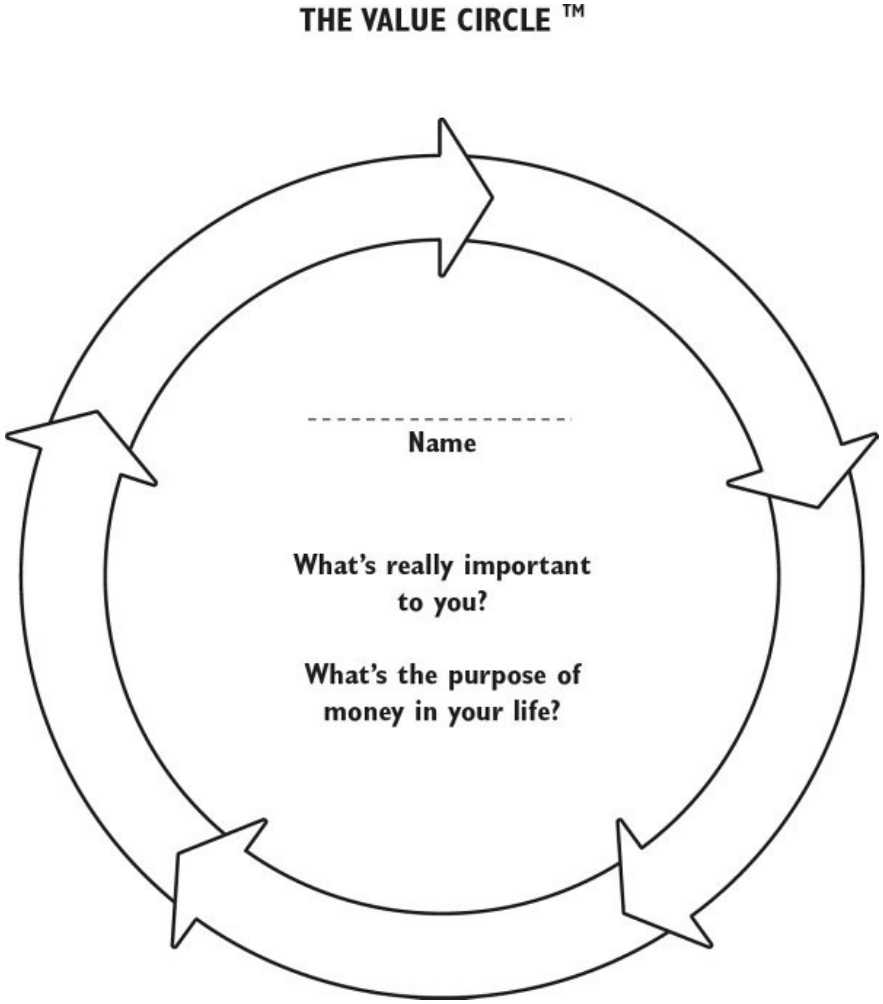
On the desk in front of you is a blank Value Circle sheet, waiting for you to tell yourselves and me (the recorder of the values) what matters most to you.

Here are some simple tips to get you through the process.

1. **First, relax.** This is not a test. It's meant to be fun. Our objective here is simple honesty. Write down only what feels right at a gut level. Don't put down a value just because you think it "looks" good. If it doesn't reflect how you feel in your gut, it won't really mean anything to you, and you won't focus or act on it.
2. **Start with the simple question:** What's really important to you? When you think about your life and the things that really matter, what value is most important to you? What's the purpose of money in your life?
3. **Remember to stay focused on values—**not goals, not things, not stuff to do or buy. If, say, you worry a lot about money, you might be tempted to list as a value "having a million dollars." But that's not a value; it's a goal. The underlying value in this case would probably be security or freedom. The million dollars is just a way to fulfill one of those values. Similarly, many people say they want to travel. But "travel" is not a value; it's a thing to do. The value that travel promotes might be fun, excitement, or personal growth.
4. **As they occur to you, write down values** in the Value Circle until you

have listed five core values that you can commit to focusing on over the next 12 months. You might find out that there are more than five values that you want to focus on. Some of my clients and students have come up with as many as 10 values. There's nothing wrong with that, if you are serious about your commitment. It's just that in my experience most people find it difficult to focus on more than five at a time.

5. **That's it.** You have completed the Value Circle. Give yourself a pat on the back.



IF YOU FIND YOURSELF GETTING

STUCK...

Not to sound like a broken record, but your Value Circle needs to center on values or it won't work. Many people struggle with the difference between a value and a goal. Remember, values are about being; they define a way of life. Goals tend to be about doing and having; they involve stuff. To help you differentiate between the two, I've listed some common values and some common goals (see chart). Use these examples to get yourself started, but don't just copy them down. In order for this exercise to be of any real use to you, you really have to care—at a gut level—about the values you choose.

VALUES VS. GOALS

VALUES	GOALS
Security	Retire with a million dollars
Freedom	Pay off mortgage
Happiness	Be debt-free
Peace of mind	Not worry about debt
Fun	Travel
Excitement	Ski with friends
Power	Be the boss
Family	Spend more time with kids
Marriage	Plan more "date nights"
Friends	Annual "guys" or "girls" trip
Making a difference	Donate to charity
Spirituality	Go to church or temple
Independence	Stop working
Growth	Go back to school
Creativity	Learn to paint
Adventure	Take trip to Africa
Fulfillment	Stay married
Confidence	Exercise

Balance	Plan life better
Love	Have great marriage
Health	Lose weight

PLEASE DON'T SKIP THIS STEP

It's really easy to skip a step that requires you to stop, think, and act—especially when it involves something as unfamiliar as looking at your values. Some of my students—and even some of my prospective clients—think these value exercises are a waste of time, that they are nothing more than New Age, feel-good fluff. Well, believe me, there is nothing New Age about looking at your values. The Greek philosopher Socrates was talking about this exact type of thing back in 400 B.C. The key to human advancement, he taught, could be expressed in two powerful words: "know thyself."

So even if you and your partner would prefer to keep on reading, rather than stopping right now to create your Value Circles, I urge you to overcome your hesitation and carry out the exercise. The nine-step journey you are taking builds on itself. In the next chapter, we will look further at your Value Circle and come up with five "do" and "have" items to match your five values. So completing this step will make the next step much easier for you.

A FINAL WORD ABOUT VALUES

It's amazing to me that so many of us can be with our partners for years, sometimes decades, and not know their most deeply held values. The fact is, there's just about nothing that can have more of an impact on a relationship than knowing what is really important to you and your

partner. Unfortunately, they don't teach us in school how to look deep within ourselves and discover this knowledge. Nor do they teach us how to share it with the people who matter most to us.

If you have children, consider doing this exercise with them. There's no reason young kids can't start living life in line with their values. Think about the impact you could have on your children if you actually knew what their values were and helped make them real. Think about how much better your life would be if you had started doing this yourself when you were still a child.

There's also, of course, a very practical reason to define your values as clearly as you can. It's my experience that people will do more, and act more quickly, with regard to their finances when they understand how their actions relate to their values. The truth is that people will do more to protect their values than just about anything else in life. Certainly, values are a lot more powerful than any sense of obligation or responsibility. Values are not "to do" lists in disguise, nor are they New Year's resolutions such as "save more," "spend less," or "lose weight." People don't lose their motivation or get bored with their values. Once you've defined your top values clearly and written them down, they almost never leave you.

Ultimately, your values are what motivate you and shape your life. In fact, they have already motivated and shaped you, whether you know it or not. It's just that now you've chosen to be more proactive about them by consciously deciding which of your values you want to focus on.

Now that your Value Circles are complete, keep them handy because we're going to use them to start figuring out your specific financial goals. But before we do that, we need to look at where the two of you currently stand financially…

Because you can't plan where you want to go until you know where you are starting from.

PLAN TOGETHER… WIN TOGETHER

Now that you've created your Value Circle, it's time to start creating your Purpose-Focused Financial Plan. To do this properly, you and your partner need to be on the same page—that is, both of you should be organized financially and planning for the future as a team. Teamwork is key to this effort. Over the years, I can't tell you how many times I've seen couples with modest incomes manage to finish rich simply by applying common sense and working together.

The best example of this I know involves a couple named Jerry and Lisa.

Jerry telephoned me on a Monday morning. That coming Friday, he said, after 30 years at a government job, he was going to be retiring. Could he and his wife come in on Thursday, he asked, to discuss his retirement plans?

Jerry mentioned on the call that he had an IRA with a balance of $153,215. Jerry was 52.

Uh-oh, I thought. Either Jerry just inherited a lot of money or he's in for a rude awakening—and I'm in for a horrible meeting.

As it turned out, I was the one in for a shock. When Jerry and Lisa came into my office on Thursday, they were holding hands like newlyweds, literally bubbling with excitement. As Jerry talked about his plans and

what he would do with his free time, Lisa kept exclaiming, "Isn't it great he can retire so young!"

After 10 minutes of this, I had to interrupt them. "What am I missing here?" I asked Jerry, who handed me his statement. "I only see $153,000 sitting in your retirement account. How can you possibly retire?"

Jerry smiled. "David," he said, "I can retire because Lisa and I have been planning this for the last 30 years." He went on to explain that right after they got married (he was 20, she was 18), he went to work for the government. He'd worked for the government ever since, bringing home an annual salary of about $40,000 in recent years. Lisa worked part-time as a hairstylist, earning about $17,000 a year.

Over the years, he continued, they'd purchased their home and a second house, a rental property, both of which they now owned "free and clear." They also had three cars and a boat, all fully paid for. "The kids are all finished with college," he concluded, "and Lisa plans to keep working for another 10 years. With her income and my government pension, I tell you, David—we won't be able to spend it all! We're set!"

I was stunned. As a financial advisor, I had plenty of experience with millionaires who were in constant financial trouble because they spent more than they made. Yet here was a couple who never earned more than $60,000 a year—sitting on top of the world.

"How did you do this?" I asked them. "How did you pay off your home, buy a rental property, save for college, put money away for retirement, and the rest—and do it all on a government salary and a hairstylist's income?"

Now it was Jerry and Lisa's turn to provide financial advice. What they taught me changed my life. It could also change yours.

A LITTLE PLANNING CAN LEAD TO BIG REWARDS

Jerry and Lisa's story begins with their parents. Both sets of parents were very conservative when it came to money, and they taught their children to use credit cards responsibly and never take on more debt than was absolutely necessary. "They told us that the way to buy a house was to get a 15-year mortgage and work toward paying it off as soon as we could," Jerry explained. "My father said if you don't have enough money to pay cash for something, don't buy it. My mom said that the time to start planning for our future was the first year we were married. 'Make your financial goals together each year,' she told us. 'Have fun making them and have fun sticking to them.' "

"But what about the rental property?" I asked. "How did you manage that?"

As Jerry told it, that was easy. "We bought our first house when I was 20, so it was paid off by the time I turned 35. Without any more mortgage payments to make, we had all this extra money each month. Lisa and I figured we could either waste it, or we could buy another house and rent it out. We realized if we bought another house, we could have it paid off by the time I hit 50, which is when I planned on retiring, and then we'd have extra income from the rental to live on."

And the three cars and the boat? They, too, turned out to be "easy." All the cars are used—none newer than seven years old, but all are well maintained so they drive like they are new. As for the boat, it was a long-held dream of Jerry and Lisa's that 10 years of disciplined saving made a reality.

Could it really be that simple? You just start planning at a young age, you work on your goals and dreams, you handle your money responsibly —and you get to retire in your early fifties? I looked at Jerry, still skeptical. "You know," I said. "You're pretty lucky Lisa still wants to work. If she didn't, you'd still have to."

Jerry shook his head. "It's not about luck," he replied. "Like I said, Lisa and I have been planning for this for a long time. About 10 years ago, I

told her I didn't want to keep working for the government forever, and she said, 'Well, work until your pension kicks in and then I'll work part-time until I'm 60.' "

With that goal in mind, Lisa set about finding a job she loved, one that allowed her flexibility and the chance to be her own boss. It took a few tries but she finally found it with cutting hair.

"I'm telling you," Jerry said, "anyone can do what we've done. It's just a matter of planning it together."

I began this chapter with Jerry and Lisa's story because it is one of the best examples I know of a happy couple who never made very much money but who were still able to achieve all their goals because they planned their financial future together. The basic point can't be emphasized too much: if Jerry and Lisa could do it on a government salary and a part-time hairstylist's income, there's no reason you or I can't do it, too! All it takes is planning.

FAILING TO PLAN TOGETHER IS THE SAME AS PLANNING TO FAIL TOGETHER

Unfortunately, most couples are not like Jerry and Lisa. They don't plan together. Rather, they just let their financial life happen to them.

Letting your financial life just happen to you is like getting on an airplane with no clue as to where it's heading. It goes without saying that if you want to fly from San Francisco to New York, showing up at the Oakland airport won't do you any good. Likewise, getting yourself to the San Francisco airport on time but then getting on a plane bound for Los Angeles won't work either. Finally, even if you go to the right airport and get on the right plane, there's no guarantee you'll reach your destination unless you've got a pilot in the cockpit making sure you stay on course.

All this is obvious stuff when it comes to travel. Shouldn't it be equally

obvious that the same principles apply when it comes to planning your financial life together?

THERE ARE THREE FUNDAMENTAL TRUTHS OF FINANCIAL PLANNING

1. You can't plan your finances if you don't know where you're starting from.
2. You can't plan your finances if you don't know where you want to end up.
3. In order to stay on track from your starting point to your destination, you have to monitor your progress.

In this step—"Plan Together…Win Together"—we will discuss some simple tools and strategies to help us with that seemingly daunting task of getting our finances in order so that we can stay on track. We will also learn the importance of goal-setting in our relationships with our partners and in creating a rich financial future.

SO…DO YOU REALLY KNOW WHERE THE TWO OF YOU ARE RIGHT NOW?

If I were to ask you and your partner right now to describe your current financial situation, could you tell me your net worth? Do you know what your assets and liabilities and expenses are? Could you easily list on a piece of paper what investments you own, how much equity you have in your home, and on what and to whom you owe money? Is all of this information neatly organized in some easily accessible place? Could you quickly get your hands on it if you needed to? Or would getting your

records together be an impossible project?

Don't kid yourself about the answers to these questions. Be honest. Think back to that quiz you took in Step One. How well did you score? How well did your partner score?

If you're like most couples, you probably didn't score as well as you would have liked to. That's okay. In fact, it's normal. The goal right now is to start addressing those problems. Remember, you didn't buy this book to be normal, but to be above average—to be extraordinary, even. You bought this book—and are investing your time to read it—in order to finish rich.

EIGHT IRAS, SIX STOCK CERTIFICATES, TEN CREDIT CARDS...

Bill and Nancy were a "normal" couple in their late thirties who came to my office because they wanted to get their financial act together. Married for 10 years, with two children, the two had been meaning to get their finances organized for years.

They brought with them a big file box of confusing paperwork—financial statements, annual reports, canceled checks, old receipts, you name it. "Here's everything," Bill announced. "Where do we start?"

Going through someone's financial records can be an amazing experience. It certainly was in the case of Bill and Nancy. For years, they had just thrown everything even vaguely financial into the file box. The good news was that they had kept a lot of records. The bad news was that they had clearly never bothered to look at most of what they had kept. Most of the reports and statements were still in the envelopes in which they had been sent—and most of the envelopes had never been opened.

After going through the contents of their box for a while, I discovered that between the two of them Bill and Nancy had at least eight separate

independent retirement accounts. Eight IRAs for a couple still in their thirties. They also had five bank accounts, 10 credit cards, a home mortgage, several savings bonds, six stock certificates, and on and on. It took us the better part of an afternoon to figure out finally how much money they had and where it all was.

Insane, right? Totally the exception, right?

Wrong.

While you may not be this disorganized, I've learned the hard way that most couples don't really have a great system for getting and keeping their finances organized. This stuff is not taught in school, and most people are too busy working during the week to figure it out on their own. So they don't.

Don't worry, though. After one too many meetings like the one I had with Bill and Nancy, I sat down and created a system to help couples get their financial house in order quickly and easily. Over the years, thousands of people have used this system to take charge of their financial lives, and now I am going to share it with you.

GIVE YOURSELF A FINANCIAL CLEANUP

When someone calls our office to schedule a consultation about their finances, the first thing we do is send them my **FinishRich Inventory Planner™**. This is a tool I developed to help people get their financial documents organized. Getting organized—what I call having a "financial cleanup"—is the first thing you need to do when you decide to get serious about financial planning. You have to clean up the mess before you can move forward.

In Step Two, I showed you how to identify your values when it comes to money. Having done that, now it's time to roll up your sleeves and get to work on the "task stuff." At the back of this book, in Appendix 2, you will

find a copy of my FinishRich Inventory Planner. Turn to this page and read through it. Don't fill it out right now. Just take a look at it. If you want a PDF version of this, visit **http://rhlink.com/9780525572947amain.**

Filling out the FinishRich Inventory Planner is one of the most important exercises in this book. It's a task that can literally change your life. But I don't want you to stop reading now. I want you to postpone filling out the form until after both of you finish reading this book. Think of it as a "homework assignment" that the two of you will do later.

Even though I don't want you to stop and fill out the Planner, I do want you to take some action now. What I want you to do is to get your financial records in proper order so that filling out the Planner won't take you forever.

If you're like most of the students who take my investment classes, I'm sure you already have all of your investment information alphabetized in color-coded files with neatly typed labels. Since you have everything carefully stored in a nice, clean, easy-to-reach file drawer, locating everything you need to fill out the Inventory Planner is going to be a breeze. It probably won't take you more than 15 minutes or so. Right?

Just kidding. I'm well aware that most people's filing system consists of a shoe box or old book carton into which they toss all those bank statements, stock certificates, insurance policies, and other financial "stuff" they know they should keep but really don't feel like dealing with. Well, don't worry about it. Even if you keep your "files" in a ratty shopping bag hidden at the back of your clothes closet, I'm going to give you a system that will make managing your financial paperwork so simple that you'll never be disorganized again.

IT'S TIME TO FIND YOUR STUFF

Before I explain the details, I want to say something to you from the heart.

This book might be able to entertain you and get you thinking about some important issues, but there's no way it's going to change your life unless you are willing to take some real action yourself. The system I'm about to show you is so simple that the two of you will probably be able to set it up in less than 30 minutes. But because it's so simple you're going to be tempted to read right through the next few pages and say to each other, "Oh, that makes sense—we'll do it later."

Don't do it "later." Make a commitment to each other right now that you will get this exercise done in the next 48 hours. Do it while it's still fresh in your minds and you are motivated. Remember, the whole point of doing this is to improve your financial lives. I couldn't care less about what your filing system looks like. What I care about is that you have an easy-to-use way of keeping track of your financial information—and that you have a clear understanding (meaning you've got it down in writing) of what you own, owe, and spend.

If you are using **Mint.com** or **ClarityMoney.com** to track where all your spending goes, this process will be easy because you already have things pretty well organized. If not, don't worry. As I said, it shouldn't take more than half an hour. If it takes you longer, that's good. It means you really need to do it.

THE FINISHRICH FILE FOLDER SYSTEM™

So here's what I want you to do. First, I want you to get yourself a dozen or so hanging folders and a box of at least 50 file folders to put inside them. If you get electronic statements, print them out and stick them in these files. Why? Because old-school paper statements will make it easier for both of you to see where you stand financially as a couple. Then I want you to label the hanging folders as follows:

☐ 1. Label the first one **"Tax Returns."** In it, put eight file folders, one for each of the last seven years plus one for this year. Mark the year

on each folder's tab and put into it all of that year's important tax documents, such as W-2 forms, 1099s, and (most important) a copy of all the tax returns you filed for that year. Hopefully, you've at least saved your old tax returns. If you haven't, but used a professional tax preparer in the past, call him or her and ask for back copies. As a rule, you should keep old tax records for at least seven years because that's how far back the law allows the IRS to go when it wants to audit you. I recommend hanging on to them even longer, but that's up to you.

☐ 2. Label the second hanging folder **"Retirement Accounts."** This is where you're going to keep all of your retirement-account statements. You should create a file for each retirement account that you and your partner have. If the two of you have three IRAs and a 401(k) plan, then you should have a separate file for each. And don't forget to write whose IRA it is on the top of each file. The most important things to keep in these folders are the quarterly statements. You *don't* need to keep the prospectuses that the mutual-fund companies mail you each quarter. However, if you have a company retirement account, you should definitely keep the sign-up package because it tells you what investment options you have—something you should review annually.

☐ 3. Label the third hanging folder **"Social Security."** You should put your most recent Social Security Benefits Statement in this folder. If you haven't received one in the mail, get online and go to *www.ssa.gov* to request one. If you don't have Internet access, telephone your local Social Security office (the number is listed in the front of most phone books under "Federal Government").

☐ 4. Label the fourth hanging folder **"Investment Accounts."** In this folder you put files for each investment account the two of you have that is not a retirement account. If you own mutual funds, maintain a brokerage account, or own individual stocks, each and every statement you receive that is related to these investments should go

in a particular folder. If the two of you have both individual and joint accounts, create separate files for them as well.

☐ 5. Label the fifth hanging folder **"Savings and Checking Accounts."** If you have separate checking and savings accounts, create separate file folders for them. Keep your monthly bank statements here.

☐ 6. Label the sixth hanging folder **"Household Accounts."** If you own your own home, this one should contain the following file folders: "House Title," into which you'll put all your title information (if you can't find this stuff, call your real estate agent or title company); "Home Improvements," where you'll keep all your receipts for any home-improvement work you do (since home-improvement expenses can be added to the cost basis of your house when you sell it, you should keep these receipts for as long as you own your house); and "Home Mortgage," for all your mortgage statements (which you should check regularly, since mortgage companies often DON'T CREDIT YOU PROPERLY*). If you're a renter, this folder should contain your lease, the receipt for your security deposit, and the receipts for your rental payments.

☐ 7. Label the seventh hanging folder **"Credit-Card DEBT."** Make sure you capitalize the word "DEBT" so it stands out and bothers you every time you see it. I'm not kidding. I'll explain later how to deal with credit-card debt. For the time being, my hope is that this won't be one of your larger hanging folders. You should create a separate file for each credit-card account you and your partner have. For many couples, this folder may contain more than a dozen files. I've actually met couples with as many as 30. However many files you have, keep all your monthly statements in them. And hang on to them. As with tax returns, I keep all my credit-card records for at least seven years in case the IRS ever decides to audit me.

☐ 8. Label the eighth hanging folder **"Other Liabilities."** In here go all of your records dealing with debts other than your mortgage and your credit-card accounts. These would include college loans, car loans,

personal loans, etc. Each debt should have its own file, which should contain the loan note and your payment records.

☐ 9. Label the ninth hanging folder **"Insurance."** It will contain separate folders for each of your insurance policies, including health, life, car, homeowners or renters, disability, long-term care, etc. In these folders put the appropriate policy and all the related payment records.

☐ 10. Label the tenth hanging folder **"Family Will or Trust."** This should have a copy of your most recent will or living trust, along with the business card of the attorney who set it up.

☐ 11. If you have children, put together a folder labeled **"Children's Accounts."** It should hold all statements and other records pertaining to college savings accounts or other investments that either or both of you have made for your kids.

☐ 12. Label the next folder **"Real Estate & Other Investments."** If you own rental property or any other additional investments put them in this folder.

☐ 13. Finally, create a folder called **"FinishRich Inventory Planner."** Here's where you're going to put the worksheet on this page after you've filled it out. This folder will also contain a file in which you keep a running semiannual total of your net worth—a vital record that will help you keep track of your financial progress.

That's it. You're done. Thirteen folders—12 if you don't have children. Not so bad, is it?

As you begin the process of putting together your file-folder system, you may find you are missing some documents. In some cases (e.g., your Social Security Benefits Statement or your will), this may be because you never received or created the document in question in the first place; in other cases (e.g., copies of old tax returns), you may have inadvertently thrown them out. Whatever the reason, don't worry about it. Just put the files together as best you can and simply make a note of what you don't have.

By the time you reach the end of this book, you will be totally organized and well prepared to fill in all the gaps.

Right now, you should feel great about the progress you've just made. Now that the two of you have started the process of getting your financial house in order, you're already in much better shape than when you first picked up this book.

WHAT IF MY PARTNER DOESN'T WANT TO DO THIS EXERCISE WITH ME?

Let's face it. Even if you're in a serious relationship right now (married or otherwise committed), the chances are slim that you and your partner simultaneously woke up one morning and said to each other, "You know what? We should head down to the bookstore and find a book about how couples can learn to manage their money together. Then we should read the book and get our finances totally organized. It will be a ton of fun and really help our future."

More than likely, one of you purchased this book on his or her own because he or she is concerned about your financial future as a couple. Chances are that this partner is really eager to get going on these exercises, while the other partner is a bit less motivated—maybe a lot less motivated.

Why do I say this? Because, for whatever reason, the fact seems to be that opposites attract. This is certainly true for most of the couples I know. Neat people wind up with people who are messy. People who understand how important it is to squeeze the toothpaste from the bottom of the tube marry people who are "middle squeezers."

I'm not going to try to be a therapist and pretend I know why we do this…we just do. And while differences can add real spice to a relationship, they can also cause real problems. Indeed, nothing motivated me to write this book more than that story I related in the Introduction about the

woman who told me her marriage felt like a plane with one jet engine going full force ahead while the other was going full force in reverse. She wanted to bail out of the plane before it crashed. That story was really sad. And it's more common than not.

THE BEST PLACE TO START WITH YOUR PARTNER IS BY GETTING ORGANIZED

People always ask me what's the best way to start if you and your partner have never worked on your finances together. More to the point, they want to know, is there a way to get started without inevitably winding up in a fight?

My answer is simple. You set up what I call a **Money Date™** (covered in Step Nine) and then on your first date it's a "clean out the money files" date. That's what the FinishRich File System is all about. You say to your partner, "Hey, it's time we got our money files organized." Think of it the same way you think about cleaning out the garage: it's one of those chores that's so easy to put off, but don't you feel great after you finally get it done!

So here's what I recommend if this book wasn't a joint purchase but, rather, the result of one of you feeling it's time to get serious about your finances: approach your partner with this chapter and suggest that the two of you schedule two hours to put together a new file system. Now, here's a sneaky suggestion. If your partner isn't interested in working with you on this, simply start doing it without him or her. Just sit down at the kitchen table (or wherever) and start setting up the files. You'll be amazed how fast your significant other will come around and want to get involved.

Pulling together all your financial records and setting up a new filing system tends to spark the interest of even reluctant spouses and partners. After all, it's a little more serious—and important to their future—than

cleaning out the garage.

DON'T BE TOO AGGRESSIVE: OFFER HONEY, NOT VINEGAR!

Enthusiasm is a great thing. But too much can be counterproductive. One of the worst things you can do when you want to move forward positively in a relationship and deal with your finances is to start jumping all over your partner about what he or she is not doing.

I learned this the hard way when I first started doing my "Smart Women Finish Rich" seminars. Women would leave my seminars so excited and motivated that when they got home they would announce to their partners or spouses things like, "We are doing everything wrong. I just had this class with this financial advisor and now I know that you're going to die before me or divorce me for some bimbo, so show me where all our money is right now so I can fix the mess you put us in!"

Which was not quite what I had in mind.

After a few concerned phone calls from angry husbands and boyfriends wanting to know what I had been telling their wives or girlfriends (to which I would meekly reply, "Um, all I said was that they should do their financial homework and get their financial files organized"), I realized the importance of diplomacy.

As my Grandma Bach used to say, "You catch a whole lot more flies with honey than with vinegar." In other words, if you want to make planning and managing your finances a fun process that the two of you will undertake together, you should take care to raise the issue nicely.

That's just what a client of mine named Betsy did. She had attended one of my seminars and realized immediately that she needed to talk to her husband, Victor, about organizing their records, which by her own description were "a total mess." Fortunately, she also realized that if she

jumped all over Victor about it, he probably wouldn't react well.

"What I did," she told me later, "was say to Victor, 'Honey, I've got a huge homework assignment from this seminar I took and I know I'm going to need your help. Do you think we could work together on it this weekend, because I'm not sure I can do it without you?' "

This proved to be the perfect way to raise the subject. No one was accusing anyone of anything (like letting their finances fall into disarray). Nor did it look like one partner was trying to take sole control of the couple's money. Because Betsy presented it as something she needed to do but couldn't without Victor's help, he was more than happy to work on it with her. What's more, she added, "When I showed Victor what the assignment was, he readily admitted it was something that we should have done years ago."

In the end, Victor wound up being grateful to Betsy for getting them to clean out their financial garage—and for realizing that they should be handling their finances together, as a team. "I have to admit it really felt good when we finished filling out the inventory worksheet that weekend," he told me. "For the first time in years, Betsy and I really discussed where our financial life was. By getting all of our assets and liabilities down on paper, we were finally able to see in black and white where we actually stood and how much our family was worth. While I always sort of had a running total in my head, filling out the inventory made it clearer and easier to deal with. I have to say, it's quite a weight off my shoulders to have Betsy now involved with our money. It takes some of the pressure off of me."

So remember to go for it and really do this project!

SMALL SUCCESSES BUILD CONFIDENCE AND MOMENTUM

Creating a filing system at home for your finances is not a big deal. In fact, it's such a small thing that it's easy to rationalize not doing it. You can say to yourself, "Yeah, sure, it sounds like a good idea, but we've got that stuff pretty much handled."

But stop for a moment and imagine what would happen if you actually went ahead and did it. Imagine if you actually made a "Money Date" with your partner to work on your finances together, and then the two of you got everything organized. Imagine how it would feel if every month when it came time to deal with your bills and other financial obligations, you could simply open up a file drawer and know where everything was.

If all this simple exercise does is give you a little more financial confidence, it's worth its weight in gold. The average American spends over ten hours a day on screen time. All I'm asking is that the two of you plan to spend just two hours sometime in the next few days to get all of your financial information organized.

Believe me—sometimes all it takes to change your life massively for the better is a small action and a small success. I know from having helped so many couples with this filing system that it really can get you motivated to take massive financial action in your life…and that's what the remainder of this book is about.

TAKING YOUR VALUES AND MAKING THEM REAL

Now that you're getting organized financially, let's get started on your goals. Having given more than a thousand speeches and workshops over the years, I know from experience that nothing can change a person's life faster than defining a number of specific, meaningful goals and then putting them down in writing. Believe me, simply writing down a few meaningful goals can literally transform your future in just a matter of days.

There is one problem with this approach. The idea of "goal-setting" is such an overexposed concept that the minute they hear it, most people

almost automatically shut down. Their brains go, "Oh, not that goal-setting stuff again! Give me some other secret." If you are thinking this right now, I do understand. But hear me out, and then take 10 minutes to try out my suggestions. You've come this far. What's a few more minutes?

So why do you need to set goals? Here's the bottom line…

LIFE IS DIFFICULT

The fact is that it's not easy to get good grades, or graduate from college, or find someone to love and then have a great relationship (or marriage). It's not easy to succeed in work or business. It's not easy to become wealthy. It's not easy to raise good kids. It's not easy to stay thin.

I could go on and on, but you get the point. Life is not easy. But that's not the only truth that matters in this context. It also happens to be true that it takes just as much effort to have a "bad life," in which you don't get what you want, as it does to have a "good life," where you do. So given the choice, why not go for the good life?

Even if you wind up falling short in the end, it's still worth trying for a good life. After all, whether or not you win in the end, if you "show up for the game," at least you get to play. Unfortunately, most people are not in the game. They simply let their lives happen to them. They live as if they were in a raft heading downstream without a paddle. Wherever the river of life takes them, that's where they go. And you know where most of these people end up? On the rocks!

It's sad but true. Most people who just "go with the flow" wind up complaining about where they "floated." They go around saying life is not fair. Well, I disagree. Life is totally fair. You get what you go for. Go for nothing and you get nothing. Go for something and, even if you miss your main goal, you might still achieve a lot of good stuff along the way.

I'm not just saying this. Goal-setting works. It's a fact. The world is

filled with people who started out with nothing and wound up with more than they ever dreamed—simply as a result of having set goals for themselves. One phenomenal example of this is a woman we all know and love named Oprah Winfrey. Here's someone who grew up poor, was sexually abused as a child, was told she'd amount to nothing, and yet became one of the greatest role models of our time. Now, Oprah didn't wake up one morning when she was a teenager and say, "I think tomorrow I'll have my own TV show and influence the lives of millions of people every day—and then when that's over I will own a cable network." She worked for decades, setting goals and battling against all kinds of obstacles to make it happen.

The same could be said of a man we all know named Michael Jordan. Arguably the greatest basketball player of all time, Michael didn't suddenly wake up in his late twenties and say, "I think I'll be the greatest basketball star who ever lived." This was a guy who couldn't even make his high school varsity team when he first tried out. People told him to forget basketball when he was young. But Michael had dreams, he had goals, and he worked against all challenges to make them real.

So how does this impact the two of you? You don't have to want to be Oprah or Michael Jordan. I'm not asking you to decide right now to change the world or become the "greatest ever." I'm simply suggesting that you and your partner sit down, take the five values we looked at in Step Two, and set yourselves five specific goals (at least one of which should have something to do with your finances) that the two of you intend to achieve over the next 12 months. In this way, you'll create for yourselves that Purpose-Focused Financial Plan I've been talking about.

DESIGNING YOUR PURPOSE-FOCUSED FINANCIAL PLAN™

So what is a **Purpose-Focused Financial Plan**? A Purpose-Focused Financial Plan is nothing more than a list of things to do (your goals) to enable you to live a life in line with the values that are most important to you. Here

are seven tips on how to define those goals, followed by a worksheet that will help you create your plan.

RULE NO. 1

Make sure your goals are based on your values.

As we discussed in Step Two, identifying your top five values may not sound like much, but doing this simple exercise can transform your life. That's because the clearer you are about your values, the easier it is to base your goals on them—and the more you base your goals on your values, the more likely it is that you will achieve them. After all, can you think of anything better or more exciting to plan your spending and investing around than the things that really matter to you? And what could matter more than the values by which you and your partner want to live and grow?

Of course, living the life you want based on your values doesn't just happen. You have to make it happen. You have to design it. This means using the Value Circle from Step Two and getting your top five values clearly defined. And remember, don't get hung up on perfection here. There are no "perfect" values or even "right" values. The idea is simply for you and your partner to start thinking and planning proactively on the basis of what is most important to you.

Ideally, each of these top five values should lead you to a specific key goal. You'll write down a value and then, right next to it, a related goal on which you want to focus your time and energy.

RULE NO. 2

Make your goals specific, detailed, and with a finish line.

I can't emphasize enough the importance of making your top five goals as specific as possible. On the worksheet, you'll find five boxes designed to help you do just that.

Many couples want to be wealthier. Others want to be more romantic. Still others want to build a strong family. Practically all of us want something we don't currently have.

Unfortunately, wanting something and getting it are two different things. In order to achieve a goal, you must know precisely what it is that you're after. In other words, you need to take those vague ideas and thoughts you have about what sort of life you'd like and make them specific.

For instance, I would love to have a vacation home. Now I could say that one of my goals is eventually to buy one, and I could write down on my worksheet: "own a second home." But what would that accomplish? Not much, because a general phrase like "own a second home" doesn't help my wife or me focus on what we really need to do to get where we want to go. Where would this second home be? How much would it cost? What would it look like? When would I buy it? How long would it take us to save up for it?

On the other hand, what if I were to think my goal through and describe it this way: "Within the next three years, I intend to buy a five-bedroom, three-bath vacation house on the west shore of Lake Tahoe with a dock from which Michelle and I can go swimming." Well, that's something we can see. We can visualize exactly what this second home of ours looks like. We can also find out what a property like that would cost. We can figure out whether it's a realistic dream for us. We can design a plan to start saving for it.

We can even draw up a timetable. For example, we might decide that our intention is to purchase our Tahoe house no later than the spring of 2020 and later that year spend the months of July, August, and December there.

Now our goal is starting to feel real, to feel exciting. Perhaps most important, because we've included a timetable, we can tell if we're on the road to making it happen or if we're just fooling ourselves. If we get to, say, the middle of 2019 and we haven't yet begun to put money away for

the down payment on our vacation home or do any research on what sort of properties are available in the areas we like, that's a pretty good indication that we need to rethink how serious we are.

Needless to say, your goal doesn't have to be buying a dream house on Lake Tahoe. Getting your credit-card bills paid off over the next 12 months can be a specific and measurable goal. So can going to Hawaii on a dream vacation sometime in the next two years. Or cleaning out the house from top to bottom in the next three months.

RULE NO. 3

Put your top five goals in writing.

I know it's a cliché, but it also happens to be true: people who write down their financial goals get rich. It's a fact. Study after study has shown that writing down your goals makes it much more likely that you'll achieve them. Having been a goal-writer for years, I can tell you from experience that when you write down a goal on paper, even if you put the paper in a drawer and don't look at it for a year, the chances are that what you've written down will come true.

Writing down goals is truly an amazing thing. It does something to you subconsciously that often brings the goal to you. For one thing, writing down your goals helps you make them more specific. For another, it makes your goals seem more real to you. The more real your goals are, the more excited the two of you will get—and the more excited you get, the more likely it is that you'll make it to the finish line.

When you write down your goals, you make them important. When you write down important goals, you make your life purposeful.

RULE NO. 4

Start taking action toward your goals within 48 hours.

I learned the power of action at a seminar called "Date With Destiny" run by Tony Robbins. "It's not enough to write down your goals," he told us, "you've got to act on them." His rule of thumb was that you should never leave a goal just "sitting there" without taking some action toward achieving it within the next 48 hours. The idea, he explained, was that if you don't get moving immediately toward your goal, even if only in a small way, chances are you'll never get moving at all.

Nothing I've ever learned about goal-setting has ever had as much impact on me—and on the results I've achieved—as this simple tip. What I've learned from Tony Robbins is that a cause set in motion becomes a life set in action. This is why our **Purpose-Focused Financial Plan** worksheet includes a box that asks you to write out your "48-hour plan." This can be anything—but it has to be something.

Let's go back to my example about purchasing a home on Lake Tahoe. Even if I don't think I'm actually going to be able to buy it for five years, there are still things I can do to start moving toward my goal right away. I can get on the Internet and start reading about Lake Tahoe. I can contact a few realtors in the area and ask them to send me information on homes that meet my criteria. I can go on **Zillow.com** or **Trulia.com** to run a search for a home in Tahoe and even tell those websites to notify me when properties in my price range or search range become listed. I can plan to rent a home in Tahoe for a few weeks on **VRBO.com** or **Airbnb.com** so Michelle and I can see how much we enjoy being there for more than a few days. We can consider doing a house "swap"—whereby we exchange our home with for that of someone in Tahoe for a month by using a website like **Homeexchange.com**.

The point is I can "do something," and I can do it within the next 48 hours. By taking this sort of specific immediate action, my goal becomes even more real to me and thus even more exciting. It's this excitement that will ultimately create the lasting energy the two of you will need in order to see your goal through to reality.

RULE NO. 5

Enlist help.

There's a huge myth out there that I'd like to bust: the myth of the "self-made" person. People typically use this phrase when they're talking about some success they have achieved or the wealth they have accumulated, and, to be fair, they often do it in order to differentiate themselves from people who inherited their wealth or position. That's fine, but the truth is that there is no such thing as a "self-made" person. No one ever reaches a really important goal without some sort of help from some other person. No matter what the situation is, human beings need other human beings to help them move forward.

So when it comes to achieving your goals, stop and think for a second. Whom can the two of you turn to for help in achieving your top five goals? Don't assume you and your partner need to do all this by yourselves. There are all sorts of wonderful resources out there just ready and waiting to help you make your goals a reality. Some of them are probably living right in your own home. If you have kids, perhaps they can help you. What about friends who may be able to offer assistance? Now move beyond the people you know and start thinking about people you may need to *get* to know.

While there's nothing more important than sharing your dreams and goals with the people you love and trust, it also doesn't hurt to share them with strangers either. You never know—the person you're sitting next to at a dinner party or a lecture may be in the perfect position to help you make your dream a reality. If you keep your goals to yourself, you could miss your big chance.

I once had a woman in one of my seminars who worked as an administrative assistant for an adult education company but whose dream was to be an animation artist. Following the rules I've just laid out for you, she made her goal specific, gave herself a deadline, wrote it down on paper—and began telling everyone she met just what she was after. Sure enough,

someone she met at a party told her about a job opening, and just four weeks later she was hired as a creative director at a start-up company designing online greeting cards. I promise you, it wasn't a fluke. It's just a matter of sharing your dream—and not being afraid to go for it.

Later on in this book, we're going to cover things like retirement accounts, wills, insurance, systematic investment plans, how you can increase your income in just nine weeks, and on and on. Many of these things will require you to enlist help. That's great. There is nothing wrong with asking for help. So make sure you include on your worksheet a list of the people whom you should be enlisting to help you achieve your top five goals.

RULE NO. 6

Get a rough idea of how much money it will cost to achieve your goals.

As you define your top five goals, you're going to find that some may have nothing to do with money, while others are all about money. Some goals will take almost no time to save for, and some goals may take a lot of time and investing to reach. Since it's important to know which is which, part of creating a Purpose-Focused Financial Plan involves estimating how much money you think you will ultimately need to pay for your top five goals.

So ask yourself, What is this goal going to cost? How much do I need to start putting aside each week or month to help me get there?

If a goal is going to cost money, and you don't start planning and saving for the cost, you are not going to achieve it. Later, in Step Seven, I'll discuss which types of investments you should use to pay for your dreams and goals. For now, just note in the appropriate box on the worksheet a rough estimate of how much money you think you're going to need. (If you don't have a number in mind right now, don't worry about it; you can fill it in later.)

The reason this box is so important is that you may find that some of your biggest goals require almost no money. Which means you can get started on them right away. On the other hand, you may discover that some of your top five goals are so expensive that it's not even realistic to put them down on paper. That's not to say you should forget about them, but it may be a sign you should do some rethinking. Some goals that at first glance seem impossibly pricey might on closer inspection turn out to have cheaper solutions. For example, you may find that owning a beach house is so expensive that, short of winning the lottery, you'll never be able to afford it. But renting one for a few weeks each year may not be out of the question—and, indeed, it may be a better way to get you started on the road toward your ultimate goal.

The point here is that you need to get a sense of what it is going to take in dollars and cents to achieve your various goals. This will enable the two of you to do two things: (1) understand how realistic (or unrealistic) your goals may be, and (2) get yourselves started on a systematic savings and investment plan to accumulate the money you are going to need to achieve them.

RULE NO. 7

Make sure your goals match your values...as a couple.

I can't stress enough the importance of making sure your goals reflect what *both* you and your partner want. Remember that goal I mentioned of someday owning a vacation home in Tahoe? It's something I've personally wanted since I spent a summer there when I was 18. But now that I'm married, goal-setting is not just about me anymore…it's about "us." And just because I want something badly doesn't mean Michelle wants it (and vice versa).

Michelle and I don't have kids yet, and we've talked for a long time about doing some serious traveling before we become parents. But guess

what? Like so many couples, we've talked about doing something and not done it. We've both been working so much that we've managed to take only two weeks of vacation in almost two years. Recently, when Michelle and I were discussing our top five goals, she pointed out to me that we weren't getting any younger and that if we were going to travel, the time to do it was soon.

Viewed in this light, my goal of buying a house in Tahoe in the next three years doesn't make a lot of sense. And indeed, after discussing it thoroughly, Michelle and I agreed that my dream of owning a second home would have to wait. Right now, we needed to focus on our goal and dream of traveling.

It never ceases to amaze me how many couples don't set goals together or share their dreams with each other. What's the point of being with someone if we don't share our most intimate dreams and thoughts with them? Some people, of course, have partners who aren't supportive, partners whose dreams and goals are so different from their own that they just can't get together on them. If that's your situation, you've got a problem—a problem this book can't solve. Fortunately, most people who tell me their spouses or significant others don't support them aren't really in that fix. They're just not giving their partners enough credit.

So don't keep your top five goals to yourself. Share them with your partner. If you've got kids, share your dreams with them, too. Ask them what they'd like to see the family doing over the next three years. Ask them about their values, and then work together on a family list of five things that you all want to accomplish together. Nothing brings a family closer than planning major goals together. By discussing our goals, values, and dreams with each other, Michelle and I began the process of creating our future together. You can do the same thing with your family.

Okay, enough talk about the tools. It's time to go to work and set some goals.

LET'S GET STARTED!

Use the Purpose-Focused Financial Plan worksheet that follows to get yourself thinking about what five key things you would like to accomplish over the next 12 months. Remember, you want these goals to be specific and measurable—things like paying off your credit-card debt or saving up the down payment for a house. In the back of the book, you'll find two additional worksheets—one for your partner, the other for the two of you to fill out together as a couple.

While you are thinking about the five key things you'd like to accomplish in the next 12 months, your partner should be doing the same with his or her goals. Once both of you have finished, sit down together and use the third worksheet to figure out your goals as a couple.

To put yourself in the right frame of mind to define your goals, use what I call the Clarity Question. It's exactly what I ask in my seminars to get my students to get started on their action plans.

> ***"Twelve months from now, what five specific things would you need to have accomplished in order to feel you have made great financial progress in your life?"***

PURPOSE-FOCUSED FINANCIAL PLAN™

Designing a Proactive Year

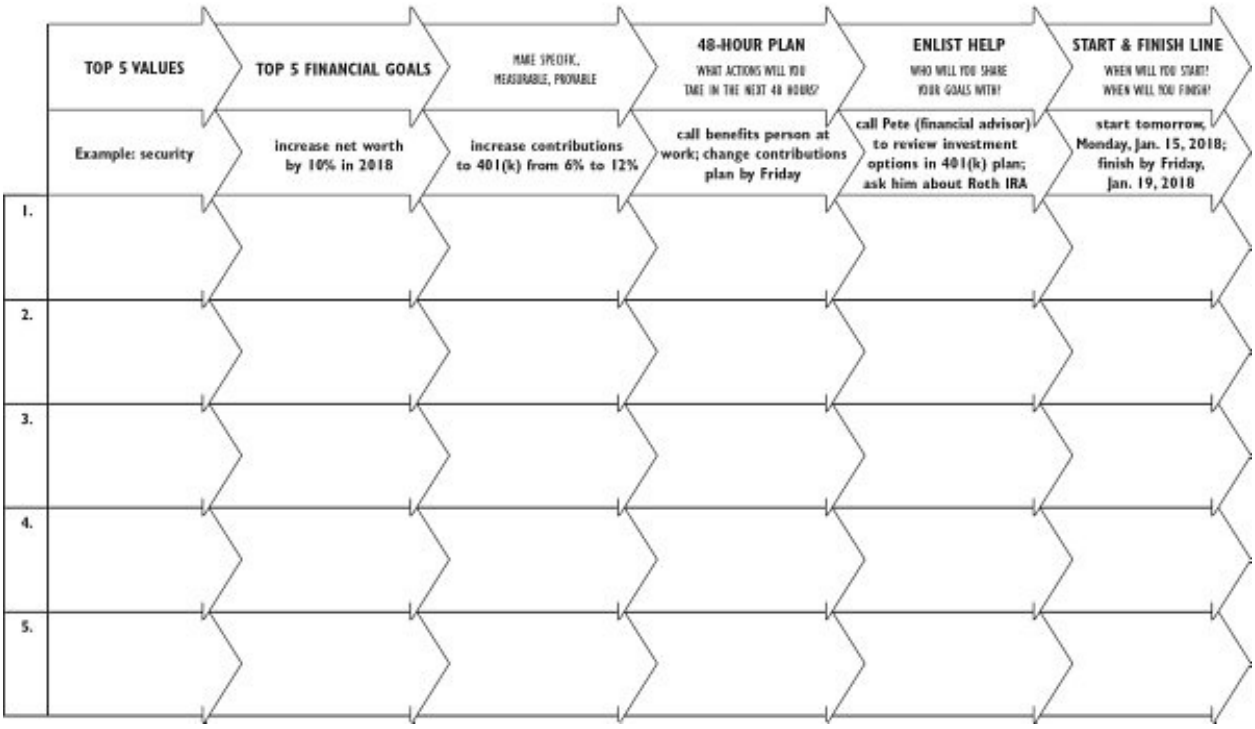
The goal of a Purpose-Focused Financial Plan is to write down what you are going to focus your energy on in the next 12 months. To do this, follow the six steps below and fill in the worksheet on the following page:

1. List your top five values. Ideally you already did this in Step Two, when we covered the concept of creating your Value Circle.

Remember you are writing down values first to address the issue of who you want to "be" as a person.

2. Based on your top five values, write down specifically what you want to "do." Your top five "to do's" will be your top five goals for the next 12 months.
3. Now it is time to make these goals specific and measurable. Remember, the more detailed and provable, the better.
4. In the fourth box on the next page, it's time to hit the "action plan" hard. What action can you take in the next 48 hours to move toward your goals? Remember that "I don't know" is not acceptable. The answer to "I don't know" is…"I know you don't but if you did, what would you do in the next 48 hours to get moving?"
5. Whom are you going to go to for help? Be specific. You will need help if your goal is big and worth going for. In this box, write in the name of the person who could help you reach your goal.
6. When are you going to start and when is your deadline to finish?

PURPOSE-FOCUSED FINANCIAL PLAN ™



CONGRATULATIONS!

Before we move on to the next step, I want to congratulate you for reading this far and hopefully playing "full out." All too often, when people buy investment books, they want to head straight to the "facts": How do I invest? What mutual funds should I buy? Am I doing the right thing with my insurance? And so on.

All these things are important, but this book is about more than the basics of investing. It's also about the basics of life-planning. I hope the last two steps really got you thinking about your life. Now it's time to head toward the "specifics"—namely, how exactly are you going to make more money and invest it more wisely so you can finish rich?

---

*I once saw a TV news report about how mortgage companies regularly make mistakes, so I went back and checked my mortgage statements. Sure enough, I discovered that 8 out of my past 12

monthly mortgage statements were inaccurate! It took me months to get my account corrected. Learn from my experience. Don't ever file your monthly mortgage statement without opening it. Make sure you always give these statements a close inspection!

THE COUPLES' LATTE FACTOR®

THE PROBLEM IS NOT OUR INCOME... IT'S WHAT WE SPEND!

If you remember only one thing from this book, it should be the sentence above. The reality of life is that just about everyone in America makes enough money to be wealthy. So why aren't we all rich? The problem isn't our income; it's what we spend.

What do most Americans do with their hard-earned money? They waste a lot of it. That's right—they simply waste a lot of it every day on "small things." I put that phrase in quotes because, as we shall see, it is quite misleading. So-called small things can add up very quickly to some amazingly large amounts.

In this, the fourth step of your journey to becoming a Smart Couple who finishes rich, you are going to learn how anyone can become wealthy on practically any income. In the process, you're also going to learn to appreciate the power of your money and the importance of the wealth for which you work so hard.

Most of us don't really think about how we spend our money—or if we

do, we focus solely on the big items. At the same time, we ignore the small but steady expenses that drain away our cash. We don't think about what it cost us to earn our money, and we don't realize how much wealth we could have if, instead of wasting it, we invested it. By understanding what I call the Couples' Latte Factor, you're going to change all that. The point is, you work hard for your money, and your money should work just as hard for you!

AMERICANS HAVE A SPENDING PROBLEM

I know *you* don't have a spending problem, do you? But trust me on this—if you don't, your friends and neighbors probably do. The fact is, U.S. consumer debt is at record highs, currently approaching $1 billion! About one million people a year declare bankruptcy in America. It's almost patriotic to spend yourself into poverty.

It's not hard to figure out why so many people have been going broke. These days you can buy just about anything without actually having to pay for it…at least not until later. You can go to a furniture store and decorate your whole house, and the nice people there won't bill you for 18 months. Or maybe you want a new car or a boat, or both. No problem. You just go to the showroom, smile, and "ka-ching"—you've got yourself a brand-spanking-new BMW or Mercedes with low monthly payments. You would think the recession and mortgage crisis we lived through would have changed this, but it hasn't. Student loans, as I write this, are now approaching $1.4 billion, and car loans are also at a record high of $1.2 billion.

With all these opportunities—all these temptations—all over the place, who wouldn't give in? Gosh darn it, we're working hard. The world is a tough place. We deserve nice stuff. Not only that, but we deserve it now!

Forget about saving. Give me my stuff today. *FedEx* me my stuff. And, oh yeah, while we're at it, make sure to put it on the credit card that gives us frequent-flyer points. Don't they have some sort of special promotion this month where we can earn extra miles? Maybe we should spend a little more and get a little more stuff.

Now if you think I'm starting to sound a little silly here, you're right—this is silly. But does it sound at all familiar? Do you know these people? Maybe intimately?

Okay, not everyone is that bad. Not everyone is out there leasing a new BMW every two years. You're probably not. But does that mean you should pat yourself on the back? Not necessarily.

All too often, being careful about the big things makes us feel as if we can afford to forget about the little things. We don't like to admit it, but it's true. There's a tendency to say to ourselves, "I'm not wasteful with my money, but gosh darn it, I should at least be able to buy myself a nice cup of coffee and a bagel in the morning. I ought to at least be able to rent a few videos tonight and pick up a pizza. Five dollars here and five dollars there isn't such a big deal, is it?"

Well, maybe it is. Maybe $5 here and there can become a million-dollar deal if you invest it right.

Got your attention, didn't I? Well, I'm not exaggerating. It's true. There is a simple and sure way of turning your small savings of $5 here and $5 there into big results. It's so simple, in fact, that I can sum it up in just three words—three critical words in a Smart Couple's vocabulary. They are…The Latte Factor.

THE COUPLES' LATTE FACTOR®

What's a Latte Factor? The Latte Factor is a simple concept that evolved from a seminar I did where a couple suggested to me that they simply did not have $5 to $10 a day to save for retirement. What we learned over the course of a conversation was that this couple actually had more than

enough income to become wealthy. As I said in the beginning of this chapter, the problem wasn't their income, it was what they were spending. The best way to explain this powerful yet simple concept is to share with you their story.

JIM AND SUSIE LEARN ABOUT THE COUPLES' LATTE FACTOR

At one of my financial-management seminars, a guy named Jim stood up at the end of the third day of a three-day class and in a few words nearly wiped out nine hours of teaching on my part.

Jim was in his mid-thirties. He had come to the class with his wife, Susie. "David," he said, "your class has been great, and your stories are cute, and your idea about putting your money into a retirement plan makes sense. But in the real world, it just won't work. You talk about putting aside $5 or $10 a day like it's no big deal. In the real world, we don't have an extra $10 a day to save. In the real world, we live paycheck to paycheck. In the real world, we're broke."

Completely deflated, I looked at him in disbelief. My financial-advisor brain thought, "You've got to be kidding. Everyone can manage to save $10 a day."

But then I looked around the room and noticed that a lot of people were nodding in agreement with what Jim had just said. They, too, were feeling like there was no way they could save an extra $10 a day.

Was I wrong? Was it completely unrealistic to think that everyone could find an extra $10 a day to put into a retirement account? There was only one way to find out. I turned back to Jim and asked him to take me through a typical day of his and tell me how he spent his money.

"Let's start in the morning," I said. "Before you go to work, do you drink coffee?"

Jim looked around nervously, as if I'd asked him a trick question. "Well, yes," he finally said.

"Great," I replied. "Where do you get it? Do you make it at home or do you get it at work for free?"

Jim shifted in his chair and glanced at Susie, who was sitting next to him. "We get our coffee on the way to work," he said.

"Oh, really? You both get coffee together on the way to work? Well, that's nice. Do you go somewhere fancy to get this coffee?"

Before Jim could answer, his wife spoke up. "Of course not," she exclaimed. "We go to Starbucks!"

The class cracked up.

"Right," I said. "Nothing fancy. Just Starbucks. So what do you get at Starbucks?"

It turned out they both got Grande nonfat lattes.

"Very good," I said. "And how much do these nonfat lattes at this non-fancy coffee shop cost you each morning?"

Jim looked at Susie. As far as he was concerned, this was her show now.

She said the lattes totaled about $7.

"And do you get anything to eat with them?" I asked.

"Well, usually we get a bagel or a muffin," Susie replied.

"And what does that cost?"

"Well, the muffins usually cost about $2.50 each. So, I guess that's $5.00.

"Five bucks, for muffins?" I asked.

Susie said, "Well, they are nonfat muffins!"

"Oh, that explains it," I said. Okay, let's add this all up. Six bucks for two lattes. Three-fifty for the nonfat muffins. So we're at almost $10 between the two of you, and you haven't even gotten to work yet. Interesting."

In the next several minutes we went through the rest of Jim's and Susie's day. As they listed each expenditure, I wrote it on the chalkboard. Here's what their daily spending habits look like:



When I added it all up, the total came to $100.25. Figuring in the sales taxes, Jim and Susie were spending more than $110 a day—all on so-called little stuff!

By this point, the rest of the class was looking at them as if they were the worst kind of spendthrifts imaginable. But you know what? There were at least six other people in this class with fancy cups of coffee in their hands! They were sipping and laughing at the same time.

Now the point here is not that you should stop drinking coffee or even

stop going to fancy places like Starbucks. I happen to enjoy Starbucks myself. The point is that here we had a typical couple who thought they couldn't afford to save any money, and yet there they were spending more than $110 on what were really extravagances.

Of course, when I suggested this to Jim and Susie, their first reaction was to get mad. "What do you mean, extravagances?" Jim questioned. "Since when is morning coffee and lunch an extravagance?"

"Calm down," I replied. "No one wants you two to starve to death. But what if you made your own coffee at home and ate an apple instead of buying a muffin? Instead of spending $10 at Starbucks, my guess is that it would cost you about 50 cents a day. You might also think about bringing your lunch to work a few times a week."

By this point Jim looked as if he couldn't decide whether to punch me out or thank me.

"Look," I continued, "my point isn't to criticize how you and your wife live. My point is that if the two of you really took a hard look at how you handle your money, I know you could each find at least $10 a day that you could be saving instead of spending."

What finally clinched it was when I explained how much that $10 a day could be worth to them. The math is really quite amazing. Saving just $10 a day amounts to roughly $300 a month, or $3,600 a year. If Jim and Susie (who were both in their mid-thirties) *each* put that much into a pretax retirement account that earned an annual return of 10 percent, by the time they were 65 they'd have a combined nest egg of *more than $1.1 million! The exact figure is $1,184,356.*

As I finished scribbling the figures on the chalkboard, both Jim and Susie looked at me and then stared at each other. Finally Susie said, **"David, are you trying to tell us that our lattes could wind up costing us $1,184,356?"**

The class laughed, but Susie had it exactly right. By the way, had they started in their mid-twenties, they could have had $3,186,666. "That can't be right!" you protest. But it is. That's the miracle of compound interest in

the fourth decade. Want to run these numbers yourself, or change the percentage? Use the same free calculator I used to run this at www.investor.gov (search for "calculators"). For these specific calculations we ran the returns annually.

SOCIETY IS NOW DESIGNED TO HELP YOU "LATTE" AWAY YOUR FUTURE

There's a reason so many of us "latte" away our futures. It's that it's so easy. You can't go two blocks in any city or town in America without coming across a fast-food restaurant or a juice bar or a fancy place to have a fancy cup of coffee. Stop in any one of them on a regular basis and you can easily wind up spending $5 a day. Drink just two Cokes a day, and that's $2. And I haven't even touched on things like cigarettes, which can cost people $8 a day (In New York City, where I live, it's $13!), or stopping by the bar for an after-work cocktail and quickly dropping an additional $10 to $20 a day or more (a martini in NYC can run you $25, easily).

There's no getting around it. Money is easy to waste. It's especially easy to waste on the small stuff. That's what the Latte Factor is all about. It's simply a metaphor for all the small amounts of money we spend on little things. The challenge is that the small stuff adds up—and before you know it, you've cost yourself millions.

THE SMART COUPLES' SEVEN-DAY FINANCIAL CHALLENGE™

With this in mind, here's an exercise I'd like you to try. Starting tomorrow, I want each of you to get a small pad and track your expenses for the next

seven days. This is not complicated. You simply write down every expenditure you make, no matter how large or small.

In order for this to be useful, you've got to promise me—and yourselves—two things.

1. You'll write down everything you spend money on for one week.
2. You won't suddenly change your spending habits because you're embarrassed about what you might find. Just be the wonderful human being that you always are and spend like you always spend.

Why do I suggest seven days? Because seven days is enough time to get a really clear picture of how you spend money—and it's not so long that you'll get tired of keeping your list.

At the end of the week, you should sit down with your partner and go over each other's lists, with an eye toward finding simple things you can each eliminate from your regular spending patterns. By the way, when you sit down with your partner, start by sharing what you plan to cut out, not what you suggest your partner cut out. Remember, you get more with honey than vinegar here!

USE TECHNOLOGY TO TRACK YOUR LATTE FACTOR—MY TWO NEW FAVORITE APPS!

Although I still like using paper for the **Seven-Day Financial Challenge**, I also want to share with you my favorite websites and apps to track where your money goes and invest the Latte Factor savings you find.

ClarityMoney.com

This is my new favorite app to track where your money goes. Earlier I told

you that I like Mint.com (I've recommended and used Mint for years). But Clarity Money, I think, is the best new financial app in town. Clarity Money says it's Mint on steroids, and I agree. The use of this new app, which was nominated for a Webby Award as the best financial app of the year, is quickly exploding. Apple raved about it as a "new app we love." What I personally love about this app is that it goes beyond just tracking where your money goes—it helps you cancel wasteful expenses, lower your bills, create a savings account, and invest. My favorite part of this app, which is what got me raving about it, is the "cancel wasteful expenses" feature. Once you link your accounts, Clarity Money looks at what you are subscribed to monthly, summarizes the information—clearly shows it to you—and then offers a quick Unsubscribe button! If you've read *Start Late, Finish Rich*, you know that I call these monthly automated expenses your **Double Latte Factor™**. I've always said that canceling the small things you pay for automatically on a monthly basis can easily save you $500 a year or more. Clarity Money says its users save more than $300 annually with this one feature. Candidly, companies are going to hate Clarity Money for this feature because it will cause them to lose money (but it will save you potentially thousands). When you see these expenses in black and white on your phone daily, you'll have the impulse to click *Unsubscrib*e and save. And for that reason alone you should try this app. I also like that it will help you lower your bills, and that you can automatically put money for emergencies into a savings account that is FDIC-insured up to $250,000 as well as invest right inside the app.

Acorns.com

Acorns is the answer to the question I am routinely asked: "David, how do you invest small amounts of money?" Acorns says right on its homepage, "Automatically invest spare change." You need nothing to a open an account, and you can invest as little as $5 a month. This is truly a game changer—especially for young people. Acorns.com has basically solved the

problem of how to automatically invest your Latte Factor savings. It allows you both to invest small amounts of money in a diversified portfolio of exchange-traded funds, or ETFs (which we will cover later, in **Step 7**) and to invest your spare change. Once you link your accounts on Acorns.com, you can elect to automatically roll up your purchases and invest your change in the portfolio you select. It's simply brilliant. (I wish I had come up with this idea!) The app also now has a huge partnership platform called Found Money, where companies like Apple, Airbnb, and Nike (there are over 100 others as well) will rebate money into your investment account when you shop with them. Think frequent-flyer program for savings. This company has taken off with Millennials especially, who have already opened more than 2 million Acorns accounts. Fees for college students are waived for four years. I liked this company so much once I discovered them that I flew out and met with the founders, then invested alongside PayPal in their venture round.

THAT'S THE DUMBEST IDEA I EVER HEARD...

The Seven-Day Financial Challenge is another one of those ideas that you can easily blow off because it seems so simple. But don't—at least not before you consider the following story.

Not too long ago, I was in New York being interviewed—live—on a major radio show with literally millions of listeners. In the middle of the interview, the host proceeded to tell me that my Seven-Day Financial Challenge was the dumbest idea he had ever heard. "David," he said incredulously, "you're telling me and my listeners that if we track our expenses for seven days, we're going to be able to change our lives financially. Give me a break. I can't tell you how dumb that is."

"Really?" I replied. "Why don't you just try it? If you still think it's a

dumb idea after seven days, I'll pay you a hundred bucks."

He phoned me a week later. Unfortunately, this conversation wasn't broadcast live on the radio. "I'm really embarrassed," he said, "but I had to call you. You were right. I tracked my expenses for seven days, and just like you predicted, I was stunned by what I found out."

"Which was what?" I asked.

"Well," he said, "this past week I spent almost $500 eating out." (For those of you wondering how anyone could spend $500 in a single week eating out—believe me, in Manhattan, which is where the radio host lives, it's easy.)

Anyway, he went on to tell me how he'd worked out the math and realized that $500 a week amounted to $2,000 a month. In other words, he was spending $24,000 a year on dinners out! And yet at the same time, he was not participating in the 401(k) plan his radio station offered or taking advantage of his company's stock-purchase program. Why? Because even though he was pulling down a six-figure salary, he always felt short of cash!

As a result of what my Seven-Day Financial Challenge made him realize, the radio host cut back eating out from six nights a week to three nights a week, and he signed up for his 401(k) plan.

The moral of this story should be obvious. Don't judge this simple idea too quickly. Try it out. Spend a week tracking your expenses. Then be brutally honest with yourself. How much money are you wasting each day? Each week? Each month? What about you and your partner combined? In other words, what is your Couples' Latte Factor?

Take a few minutes and really think about this. The reason this simple concept is so important is that if you can get yourself to believe you can find an additional $10 a day to put away in a retirement account (which is exactly what we're going to cover in detail in the next chapter), you can begin to take advantage of the concept called the "miracle of compound interest."

WHAT'S THE MIRACLE OF COMPOUND INTEREST?

Albert Einstein, widely considered one of the greatest minds of all time, was once asked to name the most amazing phenomenon he had ever come across. He replied that it was the power of compound interest. It was truly "miraculous" when you looked at it, he said, and even more so when you actually put it to work.

Einstein wasn't kidding. The miracle of compound interest is unbelievably simple yet life-changing. It comes down to this…

Over time money compounds. Over a lot of time money compounds dramatically!

You don't have to take my word for this. On the pages that follow are some powerful charts that illustrate this concept. Take a good look at them and think about your Couples' Latte Factor. Hopefully, now that each of you has found a way to save $5 to $10 a day (or more), let's consider what this "small" amount of saving can do to transform your financial future. Without worrying about what specific investments you might make (we'll get to that later), just look at what saving money "systematically" each month can do for you.

TO BUILD WEALTH . . . PAY YOURSELF FIRST AND DO IT MONTHLY						
YOUR MONTHLY INVESTMENT	YOUR AGE	TOTAL AMOUNT OF MONTHLY INVESTMENTS THROUGH AGE 65	AT A 4% RATE OF RETURN	AT A 7% RATE OF RETURN	AT A 9% RATE OF RETURN	AT A 12% RATE OF RETURN
$100	25	48,000	118,590	264,012	471,643	1,188,242
	30	42,000	91,678	181,156	296,385	649,527
	40	30,000	51,584	81,480	112,953	189,764
	50	18,000	24,691	31,881	38,124	50,458
$150	25	72,000	177,294	393,722	702,198	1,764,716
	30	63,000	137,060	270,158	441,268	964,644
	40	45,000	77,119	121,511	168,168	281,827
	50	27,000	36,914	47,544	56,761	74,937
$200	25	96,000	237,180	528,025	943,286	2,376,484
	30	84,000	183,355	362,312	592,770	1,299,054
	40	60,000	103,169	162,959	225,906	379,527
	50	36,000	49,382	63,762	76,249	100,915

Now think about it another way. What if you systematically put this money into a retirement account such as a Roth IRA? Take a look at this next chart. Remember, to make this chart work you have to save only $5.50 a day! It's not a big deal…if you do it!

THE TIME VALUE OF MONEY

Invest Now Rather Than Later

BILLY *Investing at Age 14 (10% Annual Return)*			SEE THE DIFFERENCE	*SUSAN* *Investing at Age 19 (10% Annual Return)*			SEE THE DIFFERENCE	*KIM* *Investing at Age 27 (10% Annual Return)*		
AGE	INVESTMENT	TOTAL VALUE		AGE	INVESTMENT	TOTAL VALUE		AGE	INVESTMENT	TOTAL VALUE
14	$2,000	$2,200		19	$2,000	2,200		19	0	0
15	2,000	4,620		20	2,000	4,620		20	0	0
16	2,000	7,282		21	2,000	7,282		21	0	0
17	2,000	10,210		22	2,000	10,210		22	0	0
18	2,000	13,431		23	2,000	13,431		23	0	0
19	0	14,774		24	2,000	16,974		24	0	0
20	0	16,252		25	2,000	20,871		25	0	0
21	0	17,877		26	2,000	25,158		26	0	0
22	0	19,665		27	0	27,674		27	$2,000	2,200
23	0	21,631		28	0	30,442		28	2,000	4,620
24	0	23,794		29	0	33,486		29	2,000	7,282
25	0	26,174		30	0	36,834		30	2,000	10,210
26	0	28,791		31	0	40,518		31	2,000	13,431
27	0	31,670		32	0	44,570		32	2,000	16,974
28	0	34,837		33	0	48,027		33	2,000	20,871
29	0	38,321		34	0	53,929		34	2,000	25,158
30	0	42,153		35	0	59,322		35	2,000	29,874
31	0	46,368		36	0	65,256		36	2,000	35,072
32	0	51,005		37	0	71,780		37	2,000	40,768
33	0	56,106		38	0	78,958		38	2,000	47,045
34	0	61,716		39	0	86,854		39	2,000	53,949
35	0	67,888		40	0	95,540		40	2,000	61,544
36	0	74,676		41	0	105,094		41	2,000	69,899
37	0	82,144		42	0	115,603		42	2,000	79,089
38	0	90,359		43	0	127,163		43	2,000	89,198
39	0	99,394		44	0	139,880		44	2,000	100,318
40	0	109,334		45	0	153,868		45	2,000	112,550
41	0	120,267		46	0	169,255		46	2,000	126,005
42	0	132,294		47	0	188,180		47	2,000	140,805
43	0	145,523		48	0	204,798		48	2,000	157,086
44	0	160,076		49	0	226,278		49	2,000	174,094
45	0	176,083		50	0	247,806		50	2,000	194,694
46	0	193,692		51	0	272,586		51	2,000	216,363
47	0	213,061		52	0	299,845		52	2,000	240,199
48	0	234,367		53	0	329,830		53	2,000	266,419
49	0	257,803		54	0	362,813		54	2,000	295,261
50	0	283,358		55	0	399,094		55	2,000	326,988
51	0	311,942		56	0	439,003		56	2,000	361,886
52	0	343,136		57	0	482,904		57	2,000	400,275
53	0	377,450		58	0	531,194		58	2,000	442,503
54	0	415,195		59	0	584,314		59	2,000	488,953
55	0	456,715		60	0	642,745		60	2,000	540,048
56	0	502,386		61	0	707,020		61	2,000	596,253
57	0	552,625		62	0	777,722		62	2,000	658,078
58	0	607,887		63	0	855,494		63	2,000	726,086
59	0	668,676		64	0	941,043		64	2,000	800,895
60	0	735,543		65	0	1,035,148		65	2,000	883,185
61	0	809,098								
62	0	890,007								
63	0	979,008								
64	0	1,076,909								
65	0	1,184,600								

Total invested = $10,000. Earnings beyond investment = $1,174,600.	Total invested = $16,000. Earnings beyond investment = $1,019,148.	Total Investment = $78,000. Earnings beyond investment = $805,185.

Billy earns	$1,174,600	Susan earns	$1,019,148	Kim earns	$ 805,185

Billy invested $68,000 less than Kim and has $369,415 more!

START INVESTING EARLY!

START INVESTING EARLY!

Are you motivated yet? How could you not be? By the way, you have my permission to copy these charts and show them to your friends. I truly wish that when I was younger, someone had shown them to me. I started working when I was 16, but I didn't open a retirement account until I was 24. I left this chart at the original $2,000 (once upon a time, that was the IRA level) because it's $5.50 a day, and that, my friends, is your Latte Factor number. Want to save more? *Then go for it!*

KEEP GOING...YOU'RE DOING GREAT

While you are really motivated, let's head to the next chapter (Step Five) and get specific. We are now going to take a look at exactly where you should put your Latte Factor money. Because it's not enough to just save money and spend less; you need to know what to do with these newfound savings. That's exactly what Step Five is all about. In Step Five, building the retirement basket, we're going to discuss two concepts that make Americans rich. The first concept is the power of "paying yourself first," and the second concept concerns where this money actually goes... specifically, pretax retirement accounts. Combine the Couples' Latte Factor with the power of Step Five and you will be an unstoppable couple on your road to wealth. So keep reading...you're doing great!

BUILD YOUR RETIREMENT BASKET

By now, I hope you've realized at a gut level that the two of you really can afford to put money away for your future. Now it's time to move beyond gut-level thinking to gut-level action. As I said in the Introduction, this book is not about positive thinking—it's about positive doing. Remember, you can't think your way to wealth; you must *act* your way to wealth.

My grandmother used to say that you should never put all your eggs in one basket. She was right. As I see it, there are *three* baskets into which you should put your eggs. I call them the retirement basket, the security basket, and the dream basket. The retirement basket safeguards your future, the security basket protects you and your family against the unexpected (such as medical emergencies, the death of a loved one, or the loss of a job), and the dream basket enables you to fulfill those deeply held desires that make life worthwhile. This three-basket approach may sound simple, but don't let that fool you. If you fill the baskets properly, the two of you can create for yourselves a financial life filled with abundance and, most important, security.

The first basket we're going to discuss is the retirement basket.

Specifically, in Step Five, you and your partner will learn what you need to do in order to accumulate a million-dollar retirement nest egg. Needless to say, the two of you can go beyond a million dollars—and, in fact, you may need to, depending on your ages—but whatever amount turns out to be right for you as a couple, the goal here is the same. Over the course of this chapter, you will learn exactly what the two of you must do to build a substantial retirement account—in other words, how to fill your retirement basket.

THE GOVERNMENT IS NOT GOING TO FILL YOUR RETIREMENT BASKET...YOU ARE!

Depending on Social Security to provide for you after retirement is asking for trouble. At best, Social Security will just keep your head above water. According to the government and Social Security, the average wage earner who retired in 2016 received $1,360 a month in Social Security benefits. This is definitely better than nothing, but it's certainly not enough to maintain a comfortable lifestyle.

For more than a decade now, politicians have been talking about the "crisis" facing Social Security and the need to modernize the system. Well, don't hold your breath on this one. As my grandmother realized decades ago, if you want to be rich, forget about the government's help—you need to plan for your own financial future. In other words, you and your partner need to make building a retirement basket a top priority.

PAY YOURSELF FIRST!

There are only a few ways of amassing substantial wealth in America

today. You can inherit it, you can win it, you can marry it…or you can pay yourself first. Chances are if you're reading this book, you and your partner missed out on the first three possibilities. So you're going to need to build your wealth together on your own. That means paying yourself first.

I KNOW YOU'VE HEARD THIS BEFORE… BUT STAY WITH ME FOR A SECOND

"Pay yourself first" is a phrase we've probably all heard. That can be a problem, because often when you're hearing something for the second or third time, your brain goes, "Hey, I've heard that idea already, so how good can it be? Give me something new."

Well, this time at least, don't let your brain do that. Just because we've all heard of something doesn't mean any of us really knows anything about it or has any genuine experience with it. When I ask people in my seminars or at my lectures to raise their hands if they've heard of the concept of "paying yourself first," just about everyone does. But when I ask how many of them have actually done it, most of the hands go down.

The fact is, most people don't really know what "pay yourself first" means. They don't know how much they should pay themselves, and they don't know what they should do with the money once they've got it.

Maybe you are one of those people. Maybe your partner is. Whatever the case, let me explain it to you.

THE THREE PRINCIPLES OF PAY YOURSELF FIRST

1. WHAT "PAY YOURSELF FIRST" REALLY MEANS

Paying yourself first means putting aside a set percentage of every dollar you earn and investing it for your future in a pretax retirement account.

While that may seem simple—and sensible—enough, the fact is that most people do exactly the opposite. We take our hard-earned dollars and pay everyone else first. We pay the mortgage, our car-loan payment, the utility bill—you name it. And at the head of the list, the one we pay before everyone else is…the government.

Thanks to the miracle of payroll withholding estimated tax payments, every time we earn a dollar we immediately run to the IRS (figuratively speaking, of course) and say, "Here I am—please take a third of my paycheck." And if we happen to live in a state like California or New York that imposes its own income tax, we say, "Oops, I don't want to leave you out either—here's another 8 percent of my income."

Add up all that generosity and you've given away nearly half of your hard-earned money to the government *before you've even seen it!* That's about as generous as you can get.

Now, I'm as patriotic as the next guy, but I think offering to pay the government close to half your wages in taxes is just downright dumb! Why? Because you don't have to. The reality is that there is an entirely legal way to avoid—or at least significantly reduce—the big bite the government takes out of your paycheck. Which leads us to the second principle.

2. WHERE THE MONEY YOU "PAY YOURSELF FIRST" SHOULD GO

The bad news is that the government loves to take our money. The good news is that it's also interested in encouraging people to save. With that in mind, Congress has passed a series of laws over the last 30 years under which smart people can minimize their tax burden—and, at the same time,

create a nest egg for their future—by putting part of their earnings into what are known as *pretax retirement accounts*.

TO FINISH RICH, YOU SHOULD PAY YOURSELF FIRST BY CONTRIBUTING AS MUCH AS YOU CAN TO A PRETAX RETIREMENT ACCOUNT

There are many different types of pretax retirement accounts: 401(k) plans, 403(b) plans, SEP-IRAs, traditional IRAs, and so on. Later on, I'll detail how they all work, along with the best ways of using them. For now, all you need to know is that these accounts all work basically the same way: money you put in them is not subject to any taxes (income or capital gains) until you take it out. The catch is that, in most cases, you can't take it out before you reach retirement age without incurring a stiff penalty.

The great thing about pretax retirement accounts, of course, is that by making use of them, you can put your money to work without first losing 40 cents or more of your hard-earned dollar to taxes.

Here's how it works. Let's say you take $100 out of your paycheck every month and put it into a pretax retirement account. Well, that's $100 a month that won't be subject to income taxes—not federal taxes, not state taxes!

Normally, of course, if you earn $100, you've got to give close to $35 of it to the government. You'll pay roughly $28 in federal taxes, and depending on where you live, as much as another $5 to $9 in state taxes. That leaves you with just $65 or so to invest, and whatever capital gains or dividends you happened to earn from that would also be reduced by taxes.

By contrast, with a pretax account, you get to put the entire $100 to work for you, and as long as you keep the money in the account, you won't have to pay any taxes on whatever capital gains or dividends it

happens to earn. In fact, you won't have to pay any taxes on the money—no matter how large your nest egg grows—until you start to take it out of the account. (Of course, in most cases, you've got to leave your money in the account until you reach the age of 59½. If you don't, in addition to paying all the taxes that are due, you'll also get hit with a penalty. More about this later.)

Think about it. Earn a dollar and pay taxes first, and you're left with only about 65 cents to invest. Put it in an IRA or some similar retirement account that allows you to defer taxes, and you've got the full dollar to play with.

Which would you rather invest—a dollar or 65 cents? If your investment grows at an annual rate of 10 percent, your pretax dollar will have swelled to $1.10 within a year. Your after-tax investment of 65 cents, on the other hand, will be worth just 72 cents. Quite a difference, isn't it? Now multiply this by some real money and then take it out 20 years, and pretty soon you're talking about a difference that may total some tens of thousands of dollars. Run it out 30 or 40 years and we're in six-figure territory.

Here is a simple chart that illustrates the power of pretax investing. Once you get your head around this concept, you'll never want to pay the government first again.

TAX-DEFERRED VS. TAXABLE INVESTING

Age	Monthly Investment through the age of 65	Rate of Return	Taxable Accumulation	Tax-Deferred Accumulation	Difference of Tax-Deferred Investing
30	$100	4%	72,581	91,373	+18,792
		7%	115,762	180,105	+64,343
		9%	162,036	294,178	+136,142
		12%	277,603	643,096	+365,493

The above example is for illustrative purposes only. It shows a 30-year-old individual investing $100 a month through the age of 65 and compares the growth of the money

invested in a taxable account vs. a tax-deferred one. The taxable account assumes a 28% tax -bracket.

3. HOW MUCH SHOULD YOU PAY YOURSELF?

Here's a simple rule of thumb: if you don't want to have to struggle to keep your head above water when you retire, you should be saving at least 10 percent of your pretax income each year. Period.

That's right—10 percent of your *pretax* income. Not your after-tax or take-home pay, but your gross pay. If you and your spouse jointly earn $75,000 a year, the two of you should be putting aside at least $7,500 a year for retirement. And I mean just for retirement. Any savings you're doing so you can buy a house or a new car or take that dream vacation should be *on top of* the $7,500. That 10 percent you're paying yourself first is not for anything else but your retirement. Ideally, I suggest you save more than that. If you've read my other books such as ***The Automatic Millionaire*** you know I recommend saving at least one hour a day of your income. One hour a day of your income comes out to 12.5 percent of your gross pay. And If you want to know the true magic formula for never having to worry about money again, the answer is 15 percent or more.

IF YOU ARE NOT PAYING YOURSELF THE FIRST 10 PERCENT OF YOUR INCOME, YOU ARE LIVING BEYOND YOUR MEANS

Maybe that sounds brutal, but it's true. If you and your partner are not currently putting 10 percent of your pretax income into a pretax retirement account, you are heading for trouble. I don't mean to sound overly gloomy or harsh. By now, I hope you have learned to trust that I

really do care about you and I appreciate the opportunity to be your "financial coach." And I want you to let this coaching sink in.

I know plenty of people who seem to be very well off, who live in nice homes and drive nice cars, wear nice clothes and belong to country clubs with more nice people who also have and do nice things—and none of them are saving 10 percent of their income. As I said before, this is true of many Americans. Well, guess what? Many Americans, when they reach retirement age, won't have enough money to maintain their comfortable lifestyles through what are supposed to be their "golden years." This is because most people who look rich really aren't. In fact, they are working their tails off, and once you peel back the facade, what you find isn't wealth and security but stress and debt.

You and your partner deserve more than that. But it won't just happen. You've got to decide to act and make it happen.

IF YOU WANT TO BE REALLY RICH, YOU SHOULD SAVE 15 PERCENT OF YOUR INCOME

What do I mean by "really rich"? Everyone has his or her own definition, but here's a fairly straightforward standard: to be considered really rich, you should have at least $1 million in liquid assets, above and beyond the value of your home.

Obviously, that's not Bill Gates rich. Or even your average dot-com IPO jackpot-winner rich. But it is a nice, comfortable nest egg. And it's something anyone can accumulate. You don't have to be lucky, you just have to be disciplined enough to put aside 15 percent of your income. Fidelity's research, by the way, backs me up on this. They did a study that looked at the 72,000 people who had become millionaires in their plans and they had saved on average 14 percent. So actually I am pushing you to

beat that 14 percent average savings rate. I know its not easy. But let's try.

You want more? Then put aside more. If you'd like to enter the ranks of the richest 1 percent of Americans, you'll need to save 20 percent of your income.

It's important to note that the younger you are when you start saving, the better off you'll be. In fact, the best time to become a massive saver and investor is when you are in your twenties. Unfortunately, this also happens to be the time in our lives when we are the least motivated to save money. When most of us get out of college, get our first job, and start having a family, we generally find ourselves stretched pretty thin. A savings and investment program isn't our top priority. We tell ourselves it's something we'll get around to when things aren't so tight.

Before we know it, of course, we're in our forties or fifties and we're still telling ourselves that we'll get around to it eventually.

Now, if you happen to be in your forties or fifties and you're just getting started, I don't want you to panic. Still, I do want you to recognize that you've got some serious catching up to do. It won't necessarily be easy, but it can be done.

THE TIME TO COMMIT TO SAVING—TO PAYING YOURSELF FIRST—IS NOW

Whatever else you do, I hope that you and your partner don't finish this chapter without having a serious conversation about this idea of paying yourself first. As a couple, you should set yourselves a "pay yourself first" goal. It should be a percentage of your pretax income that both of you can handle, can stick to, and can increase a little each year.

Let's say you start this year with a "pay yourself first" target of 10 percent of your income and agree to increase the amount by 1 percent each succeeding year. Within 10 years, you'll be saving 20 percent of your

income. At that rate, you won't ever have to worry about your financial future. You'll be set for life.

BUILDING A NEST EGG WITH FREE MONEY

Putting aside 10, 15, or even 20 percent of your income may sound like a lot, but over the next few pages you will see that it can be both easy and fun. Why is it fun? Because when you pay yourself first into a retirement basket, you wind up paying less in taxes up front *and* your money grows, tax-deferred. The results of this can be truly amazing. It's like getting free money from the government!

If you don't understand exactly how this works, you're not alone. Millions of Americans don't—and as a result, they fail to take advantage of all the different retirement accounts and programs available to them. As far as I'm concerned, this is one of the great shames of American education. Every child should be taught about basic financial planning in middle school or high school. If we learned this stuff early, we'd all be much better off. Unfortunately, personal finance has never been part of the curriculum, so you need to learn it now. Anyway, the fact is that paying yourself first into a retirement basket is really quite simple.

HOW TO SAVE $5,000 A YEAR WITHOUT GIVING YOURSELF A $5,000-A-YEAR PAY CUT

Before I describe all the different types of pretax retirement accounts there are, I want to go over something I know is probably bothering you.

Let's say you and your partner earn a combined total of $50,000 a year.

In order to follow my suggestion that the two of you save a minimum of 10 percent of your pretax income, you'd have to start putting aside at least $5,000 a year. Now if you've never done this before, I know how you're going to react. You're going to say, "There is no way we can do this! We're living paycheck to paycheck. No way can we afford to take a $5,000-a-year pay cut. And don't tell me the Latte Factor is going to save us $5,000 a year."

Is this what you're thinking? Well, don't worry. The two of you *can* save $5,000 a year without giving yourselves a $5,000 pay cut.

That's right. You read that correctly. If you are not currently saving 10 percent of your income, you can start doing so tomorrow—*without decreasing your spendable income by 10 percent!*

How can that be?

It's simple. Normally you earn $50,000 a year, right?

Wrong.

Assuming you've got a combined tax rate of 35 percent or so (the average for most Americans), what you actually bring home is about $32,500 in spendable income. Now, despite what you might think, putting $5,000 into a pretax retirement account will not reduce your spendable income from $32,500 to $27,500. Remember, you're paying yourself first—*before* you pay the government. In other words, the $5,000 you're saving comes off the top. What gets reduced is your gross income, which will drop from $50,000 to $45,000.

So let's do the math: $45,000 taxed at 35 percent leaves the two of you with a spendable income of $29,250. Before, you had a net spendable income of $32,500. Now you're getting $29,250. The difference is $3,250 a year. Divide this by two (there are, after all, two of you) and it comes out to a pay cut of $1,625 a year each. Divide that by 12 months, and that comes to a pay cut of $135 a month. Divide that by 30 days a month and it comes to $4.51 a day—an amount the Latte Factor can easily cover!

Of course, most couples who earn a combined income of $50,000 a year

are not saving 10 percent of their income. If they were, millions more of us would be millionaires.

I grant you, the math can be a little confusing. If I were explaining it on a chalkboard at one of my seminars, it might take 15 to 20 minutes before everyone got it. So don't worry if you don't understand it right away. Just keep rereading the explanation until it sinks in. It's simple, basic math that can change your life forever.

If, after all this, you still don't feel you can save 10 percent or more of your income right now, do what I did when I started paying myself first. I was 25 at the time, and I didn't fully realize how important paying yourself first was. I also didn't believe that I could handle the pay cut. So instead of putting aside 10 percent of my gross income, I started by saving an amount that I figured I'd barely notice; in my case, it was 3 percent. At the same time, I made a commitment to myself, which I put in writing, to bump up my contributions to my 401(k) plan by another 3 percent at the end of six months.

I figured if I increased my contributions by 3 percent every six months, I'd be fully maximizing my 401(k) plan within two years. What actually ended up happening is that I quickly realized that putting money aside wasn't as difficult as I thought it would be. As a result, in less than a year, I increased my contributions from 3 percent to 6 percent, and then from 6 percent to the maximum. I was doing what I needed to do, but because I had gotten there gradually, I barely felt the difference in my spendable income.

THE INS AND OUTS OF RETIREMENT ACCOUNTS

There are basically two types of retirement accounts: the kind your company provides for you (called employer-sponsored retirement

accounts) and the kind you provide for yourself (known as individual plans).

Over the next few pages, I will review how these plans work and how you go about setting them up and contributing to them. If you work for a company that has a retirement plan in place, you won't need to worry about the retirement accounts I describe for self-employed people. Then again, in this constantly changing economy where more and more people are becoming self-employed, it may be worth reading about these plans even if you are currently covered by a company program.

THE MOTHER OF ALL RETIREMENT ACCOUNTS: THE 401(K)

By far the most popular retirement program U.S. companies make available to their employees is the 401(k) plan; nonprofit organizations can offer employees a similar program known as the 403(b). The 401(k)—it takes its name from the section of the law that brought it into being—is what is known as a self-directed plan. This means that while the plan is administered by the employer, it is directed by the employee. In other words, it is up to you to tell your company whether you want to participate in the plan, how much you want to contribute to it, and where you want your money to be invested.

THE BASICS OF 401(K) INVESTING

The first thing you need to know if you work for a company is whether your employer has a 401(k) plan in place. It constantly surprises me how many people don't know if their company offers this sort of retirement plan. You really should find this out before you accept a job with a new employer. Not having a 401(k) plan puts your financial future at risk, and you might want to think twice before you go to work for a company that refuses to provide one.

Assuming your company does have a 401(k) plan, the second thing you need to do is make sure you're signed up for it. Enrolling shouldn't cost you anything. It's a benefit that is provided by the company to the employee. What normally happens when you start a new job is that you get a ton of paperwork handed to you. This generally includes what is known as the "sign-up package" for the 401(k) plan.

Many people mistakenly assume that signing up for a 401(k) plan is automatic. IT'S USUALLY NOT! The good news is that since I originally wrote this book many companies have made "automatic enrollment" a part of their 401(k) plans. The best plans offer not just automatic enrollment features but also "automatic increase features" that increase the savings rate automatically on a set time frame (usually annually). This single change in the retirement planning industry has done more good than probably anything ever done in regard to savings. Companies that have automatic enrollment have seen up to 85 percent of employees participate in their 401(k) plans, according to Aon Hewitt, from an average participation rate of 62 percent. That's the good news. The bad news is that many of these plans are automatically opting employees in at 3 percent, and then the employees are leaving it at this low rate, thinking they are "good to go." If you have automatical enrollment, you MUST look at what the automatic enrollment level is and then increase it! Among companies *without* automatic enrollment, many unfortunately find that fewer than half of their eligible employees participate in their 401(k) plans. It's not hard to understand why. As a new employee, you are handed this huge package of material and you're so busy getting used to your new job that you simply don't have time to read it all. Or, worse, today everything is sent via e-mail and it just gets lost in your in-box. The next thing you know, six months have gone by and you are still not signed up for the plan.

So here's my recommendation. If you work for a company that offers a 401(k) plan, first thing tomorrow check with the benefits manager in your

company's human resources department to make sure you are properly signed up. If it turns out that you are not enrolled, ask for a sign-up package. (This goes for your partner as well.) If your company does all of this online, then get online **right now, look at what your enrollment level is, and then increase it!**

Some companies won't let you join their 401(k) plan until you've worked there for some minimum amount of time, usually 6 to 12 months. This is not a legal requirement but a matter of corporate policy. If you ask "loudly" enough, sometimes they will waive the rules and let you join early. If not, find out when you will be eligible and mark the date on your calendar. As soon as it arrives, run (don't walk) to the benefits department or go online and get signed up. Believe me, no one from the benefits department is going to remind you to sign up for the plan. Not to be negative, but they aren't watching this stuff. That's why you have to.

IF YOU'RE ALREADY SIGNED UP...

If you and your partner are already signed up for 401(k) plans, the most important question to ask is whether you are "maxing out." That is, are you taking full advantage of the "pay yourself first" system by making the maximum contribution your plan allows?

Please don't assume for one second that you are doing this. It's simply too important not to double-check. *Paying Yourself First* as much as you can into your 401(k) plan is essential if you and your partner are really serious about getting—and finishing—rich. You both need to be doing this.

By law, the maximum dollar amount you can contribute to a 401(k) plan in 2018 is $18,500 if you are under the age of 50 and up to $24,500 if you are over age 50. With the new tax legislation, the allowable contribution is now raised each year by a specific amount so keep checking with your benefits department to make sure your contribution level is up

to date. You can also go to www.irs.gov each year to see if the amount you can save has increased (simply search "IRA or 401(k) retirement maximum contributions" and you should find the latest rules). Keep in mind that just because the government has raised the amount you can contribute to a 401(k) plan doesn't mean your employer will raise your contribution accordingly. Most likely, you will have to go back to your benefits department and give them specific instructions to increase the amount. This may sound like a bother, but, believe me, it's worth it. Keeping an eye on these sorts of details is what makes the difference between having to struggle at retirement and finishing rich.

If you do just one thing **today** after finishing this chapter, please let it be that you contact your benefits department to make sure you are truly maximizing your contributions to your 401(k) plan, or go online and get it done. If it turns out that you're not, make it a goal to increase the size of your contribution immediately, even if it's by only a few percentage points. Remember my story about how I managed to ramp up my contributions gradually without it hurting. Believe me, it's worth doing. In the long run, a small increase in your 401(k) contributions can make a huge difference in your wealth.

NOW THAT YOUR MONEY IS IN THE PLAN, HOW DO YOU GET IT OUT?

Another concern that keeps people from contributing to a company retirement plan is the mistaken notion that once they put their money in the plan, they will lose control over it. Nothing could be further from the truth. It's true that you're not supposed to take any money out of a 401(k) or similar retirement plan until you reach the age of 59½. But that doesn't mean you can't. It's your money, and in most cases you can get hold of it if you really need to.

Of course, as soon as you take money out of a 401(k) plan, it becomes subject to taxes as ordinary income. And if you're younger than 59½, you'll generally have to pay an additional 10 percent penalty to the government. (There are ways you can avoid this penalty. I'll tell you about them later.) In any case, I don't recommend that you withdraw your retirement money prematurely.

YOU CAN BORROW FROM YOUR 401(K) PLAN...BUT I DON'T SUGGEST IT

If you're really strapped, one way to make use of your 401(k) money without actually making a withdrawal is to borrow against it. Most plans allow you to lend yourself a portion of what you've saved, up to a maximum of $50,000. While this can be a simple process (in fact, some companies now allow you to do this over the phone), it is a very serious decision. First of all, any money you borrow from the plan must be paid back with interest. Second, most companies require you to repay the loan within five years. Third, if you are ever laid off, your company could force you to move your 401(k) money out of the plan. If this happens and you can't pay back the loan, it's considered a withdrawal and you could be hit with taxes, penalties, and interest charges. I've seen this happen, and it can be very sad and stressful.

Because of this, even though borrowing against your 401(k) can seem like a painless way of getting money out of the plan, you should regard it as a last-resort option.

Unfortunately, a lot of people don't. According to *Kiplinger's* magazine, one out of every five Americans with a 401(k) account borrows against it. Even worse, according to the *Wall Street Journal,* people are doing this to fund all sorts of short-term projects, such as vacations, second homes, and even boats.

In my view, these people are asking for trouble. Remember, you put money into a retirement account for one reason and one reason only: for your retirement. If you take 401(k) money out early (or borrow against it) to pay down your credit-card debt or buy some luxury you couldn't otherwise afford, you're only cheating yourself. Smart Couples who want to finish rich don't borrow against their 401(k) plans; they let the money grow for retirement!

And don't worry about locking yourself into a burdensome commitment. Any decision you make now regarding the size of your 401(k) contribution can always be changed. If you suddenly find yourself in a financial squeeze, you can reduce your contribution. Indeed, most companies will allow you to change the size of your 401(k) contributions just by making a phone call.

TWO COUPLES, SAME PLAN...A $700,000 DIFFERENCE!

If you think I'm being a broken record here, going on about the importance of maxing out your retirement plan, consider this story of two couples who came into my office a few years ago.

The first couple, Marilyn and Robert, had spent 30 years focusing their retirement efforts on funding Robert's retirement account at work. When Robert's employer, an oil company, first began offering a retirement account that would allow workers to put away as much as 12 percent of their income, Robert and Marilyn figured it made sense for Robert to participate, but they weren't sure they could afford to put so much of Robert's paycheck aside. In the end, Marilyn's father put it in perspective. "Robert," he said, "the two of you can't afford *not* to do this. Just make the sacrifice now, and you'll be very glad later on that you did." With that sensible advice ringing in his ears, Robert elected to make the maximum

contribution at the time of 12 percent.

At the same time, Robert and Marilyn's best friends, Larry and Connie, were wrestling with the same issues. Larry had a job very similar to Robert's, and the two men earned roughly the same amount of money. But Larry and Connie made a different decision. After a great deal of discussion, they decided to put away just 3 percent of Larry's income. They simply didn't feel they could afford to put away any more than that.

Thirty years later, when Robert and Larry were in their mid-fifties, they were both downsized. Shortly after that, they and their wives attended one of my retirement seminars. Later, they made appointments to come see me (separately) in my office.

Robert and Marilyn were excited when they showed up for their appointment. They were ready to retire and they knew they had saved enough to be able to do it. Indeed, when I looked at their 401(k) records, I saw that they had more than $935,000 in their account.

"I BLEW IT..."

Not so for Larry and Connie. When they came into my office the day after Robert and Marilyn, they were plainly worried. In fact, the first thing Larry said to me was, "I blew it." Larry and Connie had only about $250,000 in their 401(k) account—almost $700,000 less than Robert and Marilyn.

To her credit, Connie refused to let her husband take all the blame. "It really wasn't Larry's fault," she said. "I was worried about our bills and I thought we would eventually put more money away, but we just never did. Things came up—college costs, a new kitchen, a few trips—and the next thing you know, we're sitting here facing retirement. Now we're in trouble. We know we can't afford to retire and we are seriously worried about whether Larry can find a new job at 56."

Learn from Larry and Connie's example. Don't make the same mistake they did. Maximize your retirement contribution now.

NOW THAT I'M CONTRIBUTING TO THE PLAN, HOW DO I DECIDE WHERE TO INVEST IT?

Another big question concerning 401(k) and 403(b) plans is: How do I invest the money I'm putting into my account? It's actually quite simple. Included in the sign-up paperwork for your plan is a list of different investments for you to choose from. A typical 401(k) plan will offer at least three types of investment options: (1) a guaranteed fixed-rate investment; (2) a selection of mutual funds; and (3) stock in your own company (if it happens to be public). Generally speaking, you can put all your money into one of these choices, or divide it up as you see fit.

The single biggest mistake people make when it comes to 401(k) plans is not spending enough time reviewing their investment options before they decide which ones to pick. Often what happens when we get the huge pile of sign-up materials is that we let it sit unread on our desk until the sign-up deadline arrives. At that point, we've got to make a decision. The problem is, we have no information on which to base it.

So what do we do? We do what we used to do when we were in school and hadn't done our homework. We ask the guy or gal at the next desk what he or she signed up for.

This works great if they know what they're talking about. Unfortunately, all too often they don't have a clue.

BEWARE OF "CUBICLE COPYING"

When I make this point in lectures, people always laugh because so many of them know they are guilty of this sort of "cubicle copying." (That's what I call the practice of turning to the person in the cubicle next to yours and asking, "Which box did you check off?") The problem with this system is that those little boxes you are checking off determine where your money will be invested—and that, in turn, may determine whether you wind up being rich or poor. What's really scary is that even though this decision can determine your family's entire financial future, many people spend less than 15 minutes making it.

So here's my suggestion. If you're already signed up for your company's 401(k) plan (or 403(b) plan if you're at a nonprofit), pull out your last quarterly statement and review the investment choices you made. Then call the benefits department and ask them for a current list of investment options and a summary of how each of these investments has been performing recently. In addition, ask your benefits person if the firm that administers your company's plan has an advisor who will go over the investment options with you. Most likely, the firm that set up your company's 401(k) plan promised to provide "free financial advice" to all plan participants. Unfortunately, most employees are not aware that this valuable advice is available at no cost, and so they never take advantage of it.

I also strongly suggest that you review your investment options with your partner, and if you have one—which I hope you do—with a personal financial advisor as well. Most financial advisors will review your 401(k) plan options with you at no cost.

LOOK FOR "TARGET DATED MUTUAL FUNDS"—IN YOUR 401(K) PLAN

Since I originally wrote this book, **target dated mutual funds** have radically

changed the investment landscape of retirement plans, specifically 401(k) investing. If you have a company plan, I will be candidly surprised if you don't have a target dated mutual fund option. What is a target dated mutual fund? Very simply put, it's a one-step solution to investing in your 401(k) plan with a single fund that is totally diversified and professionally managed based on your anticipated retirement date. The fund you select should be close to your anticipated retirement date. If you are shooting for a goal of retirement in 2040, then you would select the fund with a 2040 date on it. The mutual fund is professionally managed, and the asset allocation (the mixture of the investments from stocks to bonds) becomes more conservative as you approach retirement. How big has this type of investment become and how popular? As I write this, target dated mutual funds are approaching a trillion dollars in investments and now make up 20 percent of assets in 401(k) plans. Aside from how simple these investments are proving to be for investors, they can also be very low cost (or they should be). The four biggest providers of these funds are *Vanguard*, *TIAA-CREF*, *Fidelity*, and *T. Rowe Price*. If you have a plan run by any of these companies, you have some very solid target dated mutual funds to choose from. They will be professionally managed, totally diversified, and regularly rebalanced. It is truly a "set it and forget it" approach. And that's why they are working so well for investors.

THE BIGGEST MISTAKES YOU CAN MAKE WITH A TARGET DATED MUTUAL FUND— *DON'T MAKE THESE*!

As great as these funds can be, you can also mess up investing in them. The biggest mistakes we see people making with target dated funds is that they select more than one. Don't select two or three of these target dated funds in order to be "extra-diversified." You'll just have a diversified mess. I recently did a seminar where a couple named Bob and Vicky approached

me. Bob and Vicky did even more: they had selected five target dated mutual Funds *each*. That means that, between them, they had 10 funds. Bob thought that going this route was the safest plan because all their money was not in the same basket of investments. In fact, I explained that they *were* in the same basket of investments, but now it was a messy basket. Then Vicky asked: "Well, what if we really don't know when we're going to retire?" It's a great question. You may not know the exact date when you will retire but you can probably guess it to within five years. You can always switch the fund to a later target date if you continue to work longer. And if you want to be conservative, select one fund with a target date that is five years before you expect to retire. For instance, if you want to retire in 2040, select the 2035 target dated mutual fund, which is a more conservative approach. Lastly, find out the fund's *glide path*. A glide path is industry speak for whether the fund is set up to run right to your retirement date or through your retirement date. Ideally, you want a target dated fund that runs *through* your predicted retirement date because hopefully you are going to live three to four decades or more after retirement! The exception to this rule is if you plan to retire in your eighties or nineties, at which point a "to fund" (i.e., one that runs just to your retirement date) could work fine. Taking action on this book's advice should enable you to retire well before your eighties if you want to.

IT'S TIME TO DO YOUR OWN RESEARCH

Finally, do your own research. Today, with the Internet, gathering information about fund performance is a snap. There are literally thousands of websites that offer financial information. To make it easier for you to find a good financial website, I've listed some of my favorites below. At these sites, you can review everything from stocks to bonds to mutual funds and learn a lot about overall financial planning:

1. **www.morningstar.com** Morningstar is the company that really started it all in terms of ranking mutual funds, and its website is probably the best of its kind. This company offers unbiased commentary on funds with a straightforward rating system of "Gold," "Silver," and "Bronze," meaning they expect a fund to outperform its peers over the next five years. It also rates funds like movies, with a star system based on the funds' risks and returns. The website has loads of useful information for investors on trends and stocks. Go to the Morningstar homepage and click on "Funds." Then click on a section called "Fund Quickrank," which allows you to quickly screen funds based on their performance, their Morningstar ratings, or their volatility. Registration is required for this section, but it's free. To get full details you will need to pay a subscription fee. You can also screen for stocks at this site.
2. **Yahoo Finance** (**https://finance.yahoo.com/screener/mutualfund/new**) Yahoo offers a nice full-service financial portal with stock and mutual fund analysis, portfolio tracking, message boards, research, and more. Try the Mutual Fund Screener tool at the URL given above. Clicking on the link for Top ETFs or Top Funds will take you to a screener where you can easily do a search based on categories and Morningstar ratings.
3. **www.wsj.com** *The Wall Street Journal* offers a useful screener for ETFs and funds that is free to the public but hard to find (Google "etf screener wall street journal" and you should find it). Subscribing to the *Journal* is a good idea for serious investors. I subscribe, and I still get the paper sent to me daily "old-school style" as well as read it online.
4. **www.mfea.com** The Mutual Fund Education Alliance website is a great site with a lot of educational information on mutual funds. The site is designed to be a financial education center to help investors learn the basics about mutual fund investing. It includes investment

tools, fund data, and links to resources and fund companies (that are members). Morningstar also provides the fund data on this site.

5. **www.ishares.com** iShares is the largest provider of exchange-traded funds (ETFs) in the world. If your plan has ETFs, there's a good chance they were created by iShares. They currently offer more than 800 funds and manage over a trillion dollars in ETFs. iShares is owned by Blackrock, one of the largest asset managers in the world. You can learn all about about ETFs at this website, as well as screen through them and build a sample portfolio.

DON'T LET ANYONE TALK YOU OUT OF JOINING YOUR COMPANY'S 401(K) PLAN

Many people make the mistake of not enrolling in their company's 401(k) plan because someone they know told them it isn't any good. This is by far the number-one reason people cite at my seminars and lectures when I ask them why they haven't signed up. Some nice person will raise his or her hand and say, "I don't use my 401(k) plan because a friend told me that the investment choices it offers are lousy and I can do better on my own."

That may sound reasonable, but the truth is that it's not. The fact is, even if you're a phenomenal investor, on your own—that is, investing outside a tax-favored plan like a 401(k)—you would be hard-pressed to outperform even a mediocre 401(k).

Why do I say this? Because every dollar you invest in your 401(k) investments is a *pretax investment*. When you invest on your own, you lose that advantage. Moreover, many companies will supplement your 401(k) contributions with a contribution of their own, kicking in as much as 50 cents for every dollar you contribute. Some even match you dollar for dollar. That's *free money* from the company you work for.

Let's do the math. Let's say you invest $100 in your 401(k) plan. If your

company is typical, it will contribute an additional $50—which means now you've got $150 working for you in your 401(k) account. If the plan generates an annual return of just 10 percent, at the end of a year you'll have a balance of $165.

To do better than that investing on your own, you'd have to generate an annual return of nearly 154 percent! Remember, you'd be working with after-tax dollars, which means that right off the bat your $100 in earnings would be reduced by income taxes to just $65 or so. If you think you know an investment that will consistently turn $65 into $165 in just one year, you don't need this book. The reality is that the stock market has generated an average return of about 10 percent a year since 1926.

Of course, you will have to pay ordinary income tax on your 401(k) money when you start withdrawing it after you reach the age of 59½. But having been able to grow tax-deferred, your nest egg will be so large by then that you'll still be way ahead of the game.

Another reality is that most 401(k) plans today provide employees with an excellent series of investment options, offering participants as many as 10 to 15 mutual funds from which to choose—generally including an index fund (whose performance will match that of the stock market as a whole). So ignore that naysayer at your office who complains about the lousy investment options in your 401(k).

WHAT ABOUT ROTH 401(K) PLANS?

Since I originally wrote this book, the biggest change to the 401(k) space other than target dated mutual funds is the ***Roth 401(k)*** option. The Roth 401(k) allows you to invest after-tax dollars (that means no tax deduction up front) into the plan, and then the money grows tax-free and comes out later tax-free. Because you won't get a tax deduction up front, it basically costs you more out of pocket to fund it. I personally like the tax deduction

up front, and I have used only tax-deductible retirement accounts myself. Many investors are now choosing to use both options (if their plan allows). This is how it works: some money goes into a tax-deductible 401(k) and some goes into a Roth 401(k). If you're not sure which way to go, using both is a solid option. Typically people who do this split their contributions 50/50.

WHAT HAPPENS TO MY 401(K) MONEY IF I CHANGE JOBS?

Recent surveys indicate that most of us will work for 10 or more different employers over the course of our lifetime. Talk to someone in their thirties, and chances are they have already held half a dozen different jobs. In the midst of all this job changing, many people leave their 401(k) money behind, in their old employer's plan, when they go to a new company or, worse, they cash out their plan. This is a huge mistake. What they should do in most cases is "roll it over" into their own Individual Retirement Accounts (IRAs).

Here's why.

1. **Money you leave behind in an old employer's plan is out of your control.** Once you're gone, your former employer can legally move your money without your permission. For instance, say your old 401(k) plan had been managed by Charles Schwab but now your company decides to move the plan to Fidelity. If the company can't find you, it will move your money into its new Fidelity plan automatically. However, since the company is not allowed to make investment decisions for you, your money will be put into a money-market account, where it will sit until the company hears from you. Which may not be for years. In the meantime, your money is earning a lot less than it could or should be. Trust me, you want to keep control

over your money. So take it with you.

2. **By not rolling over your 401(k) money into an IRA, you're limiting your investment options.** With an IRA, there is almost no limit to the sort of investments you can make. You can put your money into stocks, bonds, mutual funds, or just about any recognized investment vehicle that strikes your fancy. This is generally not true of 401(k) plans.
3. **An IRA may offer you better beneficiary options than a 401(k).** Most 401(k) plans allow you to name only a spouse as your beneficiary (that is, the person who will inherit your account if you should die). You may, however, want to do more elaborate estate planning, in which you name a trust as a contingent beneficiary. Generally speaking, you can't do this with a 401(k) plan. Also, most 401(k) plans don't allow you to make your kids contingent beneficiaries. Why does this matter? Because in the event you and your spouse die together, if your children aren't contingent beneficiaries of your retirement account, the money might have to be distributed and they could have to pay income and estate taxes on the proceeds. That could cost them as much as 70 percent of what you managed to put away.

To be fair, there is one advantage to leaving your money in a former employer's 401(k) plan: you don't have to make any decisions or think about any of these issues. But that's not how a Smart Couple operates—not if you want to finish rich.

IF YOUR COMPANY DOESN'T HAVE A RETIREMENT PLAN...

In my view, companies have a moral obligation to offer employees 401(k) or similar retirement plans. I find it incredibly sad when I meet people who have worked for the same company for decades and don't have any money

for retirement because their bosses never bothered to put a self-directed plan in place.

The fact is, there is simply no excuse. Setting up and administering a 401(k) plan is both simple and inexpensive. Indeed, for a company with fewer than 100 employees, it shouldn't cost more than a few thousand dollars a year.

If, for some reason, your current employer does not have a 401(k) plan in place, I strongly recommend that you and your fellow employees make it known—in writing—that you are concerned about your future and feel that the company's unwillingness to offer a retirement plan puts your financial future in jeopardy.

I also recommend that you make it as easy as possible for your employer to do the right thing. Do the basic research for him or her. Contact a few of the many companies that offer "turnkey" 401(k) plans for small businesses and get them to send you some information about how the process works. Then pass it along to your boss. Among the companies that can help you with this are Insperity (reachable at 877-516-8977 or *www.insperity.com*), Fidelity Investments (at 800-343-3548 or *www.fidelity.com*), the Vanguard Group (877-662-7447 or *www.vanguard.com*), and T. Rowe Price (800-422-2577 or www.troweprice.com) and America's Best 401k (great option for small companies; call 855-905-4015 or *www.americasbest401k.com*). This is only a starting point, but by doing some of the groundwork you stand a better chance of getting your company to set up a plan. In addition, you may even end up impressing your boss with your initiative.

IF THERE IS NO WAY YOU CAN GET YOUR EMPLOYER TO OFFER A 401(K) PLAN...

If all your efforts are in vain, and your employer simply won't (or, for

some reason, can't) set up a 401(k) plan for you and your fellow workers, then you have no choice—you *must* open an Individual Retirement Account.

Fortunately, opening an IRA has never been simpler. As a result of the massive Taxpayer Relief Act of 1997 and the IRS Restructuring and Reform Act of 1998, it is easier than ever to become eligible to open a traditional tax-deductible IRA or a Roth IRA.

THE TRADITIONAL IRA

The IRS permits you and your spouse to contribute up to $5,500 annually to an IRA if you are under the age of 50 and $6,500 for people over age 50 (they call it a "catchup-provision"). When you open an IRA, you first decide how much to put in, then how to invest it. Depending on your tax situation, your entire contribution may be tax-deductible. Your money, though, will grow tax free until you withdraw it.

WHO'S ELIGIBLE TO USE A TRADITIONAL IRA?

Anyone under the age of 70½ who earns income from a job (as opposed to interest or investment income) or is married to someone who earns income from a job can open and contribute to a traditional IRA.

HOW MUCH MONEY CAN I DEPOSIT IN A TRADITIONAL IRA?

By law in 2018, an eligible individual is allowed to invest up to $5,500 a year in a traditional IRA if you are under age 50 and up to $6,500 if you are 50 or older. Depending on your income and whether or not you

participate in a company-sponsored retirement plan, you may be able to deduct your entire contribution. Visit www.irs.gov for updates.

WHAT ARE THE TAX ADVANTAGES OF A TRADITIONAL IRA?

There are two big tax advantages to a traditional IRA. Depending on how much you earn and the extent to which you participate in a company-sponsored retirement plan, part or all of your IRA contributions may constitute a pretax investment (that is, one that is tax-deductible). In any case, regardless of whether your contribution is deductible, the money you invest in an IRA account grows tax deferred—meaning that if you keep your nest egg in the account, you don't have to pay any income or capital gains taxes on any dividends or investment profits it may earn. This ability to defer taxes allows your money to grow much faster than it otherwise would—and makes it possible for you to finish rich!

CAN A SPOUSE WHO DOESN'T WORK INVEST IN A TRADITIONAL IRA?

Yes, if you work and participate in a 401(k) plan, your nonworking spouse can still contribute up to $5,500 a year to a traditional IRA account or $6,500 if age 50 or older. How much the working spouse can deduct depends on their adjusted gross income. Again, check **IRS.gov** for the most up-to-date phase-in rates based on the year you read this.

WHAT IF I USE A 401(K) PLAN?

Even if you participate in a 401(k) plan at work, you can still fund an IRA if you wish. Depending on your marital status and income, your contribution may even be tax-deductible. Things get a bit more complicated if you are married and filing separate tax returns. If this is your situation, I suggest you consult a tax advisor. In addition, you can read IRS Publication 590 ("Individual Retirement Arrangements") or visit the IRS website (www.irs.gov).

WHAT'S THE DEADLINE FOR FUNDING A TRADITIONAL IRA?

The deadline for making contributions to a traditional IRA is the date your tax returns are due for that year—April 15 of the year following the one for which you're making the contribution. However, don't wait until the last minute to fund your IRA. The sooner you take care of it, the more time you'll have to take advantage of the tax-deferral benefit.

WHEN CAN I TAKE OUT MY MONEY?

The basics of withdrawing money from a traditional IRA are quite simple. To begin with, the money you put into the account is supposed to stay there until you reach the age of 59½. At that point, you can start taking out your contributions without incurring any penalties. You will, of course, have to pay income taxes on the money you withdraw. If your contributions were after-tax contributions (that is, if they weren't tax-deductible), you'll owe tax only on any gains your original investment may have made, not on the original investment itself.

WHAT HAPPENS IF I TAKE MONEY OUT

OF MY TRADITIONAL (DEDUCTIBLE) IRA BEFORE I REACH 59½?

If you take any money out of a traditional (deductible) IRA before you reach 59½, in addition to paying income tax on the withdrawal, you may have to pay a penalty fee amounting to 10 percent of whatever interest or investment earnings your initial deposit generated over the years. For example, say you invested $10,000 and it grew to $15,000. If you withdrew this $15,000 prematurely, you would have to pay income taxes on the entire $15,000, plus a penalty of 10 percent of the $5,000 gain ($500). However, no taxes or penalties are due on a premature withdrawal if you put the money back into an IRA within 60 days.

ARE THERE ANY OTHER EXCEPTIONS TO THIS 10 PERCENT PENALTY RULE?

Yes, you can make penalty-free withdrawals to pay for certain special expenses. These include higher-education bills for you, your spouse, your children, or your grandchildren, as well as up to $10,000 of the cost of your first home. You can also take money out of your IRA without penalty to cover medical expenses due to long-term illness or disability, to pay for health-insurance premiums, and to affect a property separation in the case of a divorce. Of course, in all these situations you will still have to pay income tax on the money you withdraw.

ARE THERE ANY OTHER EXCEPTIONS?

There is one other way you can avoid the early-withdrawal penalty—although to qualify for it, you must be in your early fifties and planning to

retire early. According to an obscure section of the tax code known as Internal Revenue Service Rule 72(t) 2(A) iv—generally referred to as "72T"—you don't have to pay the penalty if you take your money in what the IRS defines as "substantially equal and periodic payments that are based on life-expectancy tables." In plain language, the IRS allows you to take a fixed amount of money out of your IRA early without penalty provided you work out a withdrawal schedule in advance and then stick to it. This is an extremely complicated undertaking that you shouldn't attempt without professional guidance. Done correctly, however, it can be hugely valuable to prospective early retirees. So if early retirement is a possibility for you, make a point of finding a financial specialist who knows the ins and outs of rule "72T." It could save you a bundle in tax penalties.

CAN I LEAVE MY MONEY IN A TRADITIONAL IRA AS LONG AS I WANT?

No. With a traditional IRA, you must start taking money out when you reach the age of 70½. IRS Publication 590 ("Individual Retirement Arrangements") explains how to calculate your Required Minimum Distribution (RMD)—that is, how much you are required to take out and when. This can be a complicated procedure, and so once again I recommend that you get a financial and/or tax advisor to help you figure things out. If you have older parents, make sure they are doing the same because if you fail to make your mandatory withdrawal, or if you get it wrong, you can get hit with a penalty amounting to 50 percent of the total you were supposed to withdraw. The RMD rule, by the way, is a financial ticking time bomb of tax penalties. If you don't begin taking your RMD at age 70½ you could be penalized by the government up to 50 percent on the amount you don't withdraw. *Couple that with taxes, and you could literally lose up to 90 percent of your money on this IRS tax trap*. So,

please, make sure you don't forget, and please check with your parents and grandparents to make sure they are taking care of their RMDs from their IRA accounts. You can blame me—tell them, "David told me to ask."

THE ROTH IRA

When the Roth IRA was introduced in 1997, many experts were skeptical that it would really be worthwhile for the average American. In the years since then, however, skepticism has been replaced by enthusiasm.

The Roth IRA—it's named for the late Senator William Roth, who sponsored the legislation that created it—is quite similar to the traditional IRA, except for two things. The first difference is that with a Roth IRA, your contributions are not tax-deductible. Once your money is in the account, however, it grows tax-deferred, just as it would in a traditional IRA. And when you take it out, you encounter the second big difference: provided you're older than 59½ and the money has been in the account for at least 5 years, it's *totally tax-free!* That's right—you pay no income taxes, no capital gains taxes, nothing!

If you are at all like me, you're probably wondering, "What's the catch?" Why would the government give us this incredible tax break? Well, remember, contributions to a Roth IRA are not tax-deductible, and that deductibility is what originally made the traditional IRA so popular. If you're one of the many people for whom the tax deduction is important, a Roth IRA may not make sense for you. But before I discuss which kind of IRA may be right for you, let's go over the specifics of the Roth.

WHO IS ELIGIBLE FOR A ROTH IRA?

As with a traditional IRA, you need to have earned income in order to be eligible to open a Roth IRA. But you can't earn too much. For singles, the cutoff point starts at a modified adjusted gross income (known as a

"MAGI") of $63,000 for single filers and $189,000 for married filers. Below that level, you can contribute up to $5,500 a year to a Roth IRA. Above it, the maximum allowable contribution begins to drop. Depending on what year you read this book these rules could change, so go to **IRS.gov** (**always go here for tax information related to rules like this**) and plug in "Roth IRA Contributions Limits" in the search bar. Bam!, you will have the latest rules. Don't just Google this stuff. Too often there are mistakes online in outdated articles. For tax limit rules assume the IRS website is the source to go to.

IF I PARTICIPATE IN A 401(K) PLAN AT WORK, CAN I STILL OPEN A ROTH IRA?

Yes! I love pointing this out at my seminars because so few people are aware of it. My suggestion is that you and your partner first make sure that the two of you are maxing out your contributions to your 401(k) plans. Couples who maximize their 401(k) plans and then contribute to Roth IRAs are setting themselves up to Finish Rich! I strongly recommend this if you can pull off the extra savings and you qualify based on your income.

WHAT ARE THE TAX ADVANTAGES OF A ROTH IRA?

As I've explained, your contributions to a Roth IRA aren't deductible, so they will not reduce your current taxes. On the other hand, the money you put in a Roth IRA will grow tax-deferred. Most important, when you take it out, it's totally tax-free—provided it's been in the account for at least five years and you are over the age of 59½. It's this tax-free withdrawal

that makes the Roth IRA such a good deal.

WHAT'S THE DEADLINE FOR FUNDING A ROTH IRA?

The deadline for making contributions to a Roth IRA is the same as the deadline for a traditional IRA—the date your tax returns are due for that year (April 15).

SO WHICH WOULD BE BEST FOR US—A TRADITIONAL IRA OR A ROTH IRA?

Without knowing your personal situation, it's hard to say which plan might make the most sense for you. Keep in mind that many investors have both types of plans. But there are some general guidelines you might consider.

GUIDELINES FOR FUNDING ROTH VS. REGULAR IRAS

1. The first priority for both of you should always be to max out your contributions to a 401(k) or similar tax-deductible company-sponsored plan.
2. If you're not eligible to participate in a 401(k) plan and you are more than 10 years away from retirement, my personal recommendation is that you go with the Roth IRA. The reason is that in the long run, the benefit of being able to make tax-free withdrawals from your retirement account is enormous.
3. If you don't like worrying about things like the cost basis of your IRA contributions or whether they were pretax or after-tax, then go with the Roth IRA. Why? Because none of these things matter with a Roth,

since there won't be any tax to calculate when you take the money out after you reach retirement age.

4. If you don't intend to touch your IRA money and you want to leave it to your heirs, go with a Roth IRA. With a Roth, you are not forced to make mandatory withdrawals.
5. If you feel strongly that you need the tax deduction in order to justify funding an IRA, then use a traditional IRA.

WHAT ABOUT CONVERTING OUR TRADITIONAL IRAS TO ROTH IRAS?

Over the last few years, many tax and financial consultants have been advising their clients to convert their old traditional IRAs to new Roth IRAs. The reason, of course, is the fact that once your money has been in a Roth IRA for five years, it can be withdrawn tax-free. But while this is a great selling point for converting your traditional IRA to a Roth, there's a big catch here. *When you convert a traditional IRA to a Roth IRA, you've got to pay income taxes on the money in the account.*

For example, say you decide to convert a traditional IRA in which you've got a current balance of $50,000. In order to do so, you've got to declare that $50,000 as ordinary income earned during the year in which you're making the conversion. Chances are, this will bump you up into a higher tax bracket.

Now, some financial advisors will suggest that if you have the money to pay the extra taxes, you should do it, because you'll come out ahead in the end. The idea is that by paying a bit more now, your tax bite will be much lower down the road when you eventually take the money out of your Roth IRA. Unfortunately, what I find is that most people don't have extra money sitting around. And if they do, they don't want to spend it on income taxes.

Typically, what happens is that people pull money out of their IRAs in order to pay the extra tax they've incurred by converting to a Roth. And in most cases, that makes no sense. Take our $50,000 example. If you withdrew $20,000 from your retirement account to pay the tax bill resulting from the conversion, that would leave you with only $30,000 invested in your new Roth IRA. That's a 40 percent reduction in your wealth. Is the Roth's tax advantage worth that much? Probably not.

Keep the following thought in mind. **Regardless of what everyone says, *the government is not stupid!* It created the Roth conversion option to generate more tax revenue for itself.** I totally expect there are going to be future new tax rules to encourage Roth IRA conversions. Just remember who benefits first—*the government*.

That doesn't mean converting is never a good idea. For example, if you know you are going to leave your money in a Roth IRA for at least 15 years and you have the extra cash (outside your IRA) to pay the extra taxes you're going to face, you might want to look into converting to a Roth.

Also, if you are in your sixties or seventies, and you have a huge IRA, it can make sense for estate-planning reasons to do a Roth conversion. Let's say you are not planning to live on your IRA money, but rather intend for your kids to inherit it someday. In this case, you can justify converting a traditional IRA to a Roth IRA. For one thing, unlike a traditional IRA, with its mandatory withdrawal requirement for people over 70½, you can leave money in a Roth IRA for as long as you live. For another, when your children inherit your Roth IRA, they won't be forced to withdraw the money the way they would with a traditional IRA. Rather, they can leave the proceeds in the account and watch their money continue to grow, free of taxes, for decades. And then when they are finally ready to withdraw it, it will still be tax-free.

Whatever your situation, if you are thinking of converting your traditional IRA to a Roth, get professional assistance and check out

www.rothira.com. It's a great website devoted to Roth IRAs, complete with a calculator designed to assist you with conversion decisions.

WORKING TEENS CAN OPEN A ROTH IRA

Because of their long-term advantages, Roth IRAs are great for teenagers. And if you think involving teenagers in this sort of thing is unrealistic, think again. I believe strongly that everyone with teenage children or grandchildren should do everything they can to get them investing now. Teaching your kids about the importance of investing while they're still in high school can make the difference between their eventually becoming rich or having to struggle.

I can't think of a better gift parents or grandparents can give their children or grandchildren than a Roth IRA. I'm not talking just about the account and the money to fund it, but the knowledge and habits the child can acquire as he or she starts learning about the importance of saving for retirement.

Imagine the impact you could have if you helped your 16- or 17-year-old open a Roth IRA. Take a look again at the chart illustrating the power of compound interest. I include this chart in all of my seminars, and I tell my students, "Show it to your kids!"

SO HOW WOULD I DO THIS?

Obviously, your child can't open a Roth IRA unless he or she has some earned income. Fortunately, most teenagers today do have at least part-time jobs that earn them at least a few thousand dollars a year.

The rules for Roth IRAs for teens are the same as for adults. So when you read this if the Roth IRA maximum is $5,500 a year for an adult

under the age of 50, it's the same for your teen. The only catch for teens is they have to earn the money. Under the law, if your teenager earns $1,000 during the year, he or she is allowed to contribute $1,000 to a Roth IRA. Now, don't worry, I'm not crazy. I know that very few teenagers (if any) are going to want to take all their earnings and put them into a Roth IRA. So here's what I suggest. Show the chart to your teenagers and tell them that if they're willing to contribute to a Roth IRA, you'll match their deposits dollar for dollar. In other words, if they put in $200 over the course of the year, you'll add another $200.

The government doesn't care where the money used to fund a Roth IRA comes from. All it cares about is how much the account owner happens to have earned that year. I have some creative clients with their own companies who've put their minor children on the payroll with a salary of $5,500 a year, which they then use to fund a Roth IRA. They have to report the $5,500 as income for the child, but as of 2016 a child under age 18 who is considered a dependent youth could earn up to $6,300 without owing any federal income tax.

Now watch this math. Ready? Take as an example a teen who is age 15. We'll call him "Jack." **Invest $5,500 in a Roth IRA.** Never add another dollar to the account. Stick the investment in a target dated mutual fund (like those I talked about on this page). If the investment grows at 7 percent annually (yes, I am being conservative), when Jack reaches age 65 it will be worth—ready for this?—**$162,013. Tax-free.** Now that is a gift!

Needless to say, being able to start building a retirement nest egg at such a young age is a great thing. But to me, even more important than the money your teen is getting to sock away is the fact that the child is learning about the importance of saving and is getting into the habit of funding a retirement account. If you can get a teenager or a college student in the habit of saving now, you will have done something absolutely fundamental toward helping him or her Finish Rich! As a parent, it's a phenomenal gift to give to your children.

YOU CAN'T BUY AN IRA!

By now, I hope you've recognized the importance of contributing to a retirement account—and figured out which type of account makes the most sense for you and your partner.

As I noted earlier, how the two of you invest the money in your retirement accounts may be the most important decision you make concerning your financial future. Unfortunately, many people don't really understand what they are doing when they make this decision.

All too often, here's what happens. A couple gets motivated to open an IRA, so they head down to the local bank. There, they are introduced to the on-site financial advisor, who says, "Mr. and Mrs. Jones, do we have a great IRA opportunity for you! It pays 6 percent for 24 months."

"Is it safe?" Mr. and Mrs. Jones ask.

"Oh, yes," the advisor replies, "it's very safe. In fact, it's insured and guaranteed."

So Mr. and Mrs. Jones sign the papers, write a check, and leave the bank smiling, thinking they have "bought" an IRA account that pays 6 percent for two years.

Well, that's not really what happened. The fact is, you can't "buy" a retirement account! What Mr. and Mrs. Jones did was *open* an IRA account. Once that was done, the bank's representative put the money they gave him to fund the account into a 24-month certificate of deposit that pays 6 percent a year.

Remember, whether you're dealing with an IRA, a 401(k), or any other kind of qualified retirement plan, the process is always the same: you open the account and then you decide where to invest the money. That's what Mr. and Mrs. Jones were doing, even if they didn't realize it. You have to tell the bank or brokerage firm that's administering your account how you want your money invested! If you don't, the money could wind up literally

just sitting there, earning little or no interest!

I always explain this in seminars, and virtually every time I do, there are people who are stunned to hear it. Sometimes they get mad. I recall one seminar where an older fellow named Peter stood up and told me flat-out, "You are obviously new to the business, young man. My wife and I have been buying IRAs for years at our bank and the rates are great! We're getting 7 percent."*

"Terrific," I said. "It sounds like you've invested your IRA contributions in a certificate of deposit with a 7 percent annual return."

Peter shook his head angrily. "You don't know what you're talking about. I would never invest in a CD for retirement."

"Really?" I said. "So what do you think you're invested in?"

"I told you," Peter replied. "A bank IRA account."

At this point, Peter's wife started looking concerned.

I went to the chalkboard and led Peter through the steps: you open an IRA account, your money goes into the account, you decide how it is to be invested.

Still, he wouldn't give up. "I really don't think that I invested in a CD," he insisted.

"Well," I said, "don't you think you should make sure you know how your IRA money is invested? If I were you, I'd call your bank tomorrow and find out."

The following day, Peter did just that. Needless to say, he found out that his bank had put his money in a certificate of deposit, just like I'd said. The good news for Peter was that he was in fact earning 7 percent. Often, people find out their money is sitting in an IRA earning nothing because they never instructed the bank or brokerage on what to do with it.

If you think this is dumb, you are correct—it's *really* dumb. Unfortunately, there are probably millions of Americans with retirement accounts who have no idea how their retirement money is invested. Since

you are a Smart Couple who plans to finish rich, I know this will not happen to you.

WHAT IF I OWN MY OWN BUSINESS?

First, let me say congratulations! I say this because I admire entrepreneurs and because, as a business owner, you are eligible for the best retirement accounts around. Second, let me urge you to avoid a mistake that too many business owners make—deciding that setting up a retirement plan is too much of a bother.

Remember, you are in business to build a financially secure future for yourself and your family—and how can you do that unless you pay yourself first? As a business owner, the best way to pay yourself first is by setting up one of the four types of retirement plans meant for self-employed people:

- Simplified Employee Pension Plan (also known as a SEP-IRA)
- Solo 401(k) plan
- Defined-benefit plan
- Savings Incentive Match Plan for Employees (known as a SIMPLE IRA)

Establishing one of these may take a little effort on your part, but, hey, you're an entrepreneur—you should be used to going the extra mile. In any case, it's more than worth it. While the regulations regarding distributions and early withdrawals are pretty much the same as the ones that govern IRAs and 401(k) plans, the rules on contributions to retirement plans for business owners are much, much better, allowing you to put away up to $55,000 a year, tax-deferred—possibly even more. How much more? A lot more. In 2018 you can put up to 100 percent of your compensation, not to exceed $215,000. Yes, you read that correctly. That's huge! We're talking

big money here!

SIMPLIFIED EMPLOYEE PENSION PLAN (SEPS)

SEP-IRAs are very attractive to small business owners because they are easy to set up and require the least paperwork. If you run a small business, are a sole proprietor, participate in a small partnership, or are a Subchapter S corporation, this is probably the type of retirement account you'll want to set up. These accounts are truly amazing. You can now contribute as much as 25 percent of your gross income to a SEP-IRA, up to a maximum of more than $54,000 (the amount is adjusted for inflation every year; always double-check the rules at **www.irs.gov**). If you are self-employed and don't have any employees, run—don't walk—to the nearest bank or brokerage and open a SEP-IRA today. Setting up a SEP-IRA can often be done in less than15 minutes, and can be taken care of online by most brokerage firms.

The downside to these plans is that if you have employees, you have to contribute for them. If your workers are over age 21 and have been on your payroll for at least three of the last five years, you also must include them in your SEP-IRA, contributing on their behalf the same percentage of their annual compensation that you do of your own. In other words, if you put in 10 percent of your compensation, you also must contribute an amount equal to 10 percent of theirs. (By the same token, if you decide not to put in any money for yourself one year, you don't have to put any money in for them.)

One disadvantage of a SEP-IRA is that the contributions you make for your employees are immediately 100 percent vested (which means the money you put in for them is theirs to keep, even if they leave your employ the next day).

THE SOLO 401(K) PLAN

If you're liking the SEP-IRA, you're going to love this. **The solo 401(k)**

plan was originally created in 2002. If you own a business and have no nonfamily employees, these accounts can be amazing for you and your spouse. Why? Because you can put more money more quickly into the solo 401(k) than you can into a SEP-IRA. Here's how it works: to begin with, you can deposit 100 percent of the first $18,500 you earn in 2018 (or more later, depending on the rules). On top of that, you can use the profit-sharing portion of the plan to contribute up to another 25 percent of your income. The maximum combined total you could contribute in 2017 would be $54,000.

Now check out the math. Say you earned $100,000 as a self-employed businessperson. With a solo 401(k) plan you can put the first $18,500 you earned in the salary-deferred solo plan, and then later you can put $25,000 into the profit-sharing portion (i.e., 25 percent of your $100,000 salary). That's a total of $43,500 tax-deductible into your plan—on $100,000 in income. With a SEP-IRA the most you could put away on $100,000 income is $25,000 (still a lot), but for a business owner looking to build wealth faster, this is a better plan that allows you to save more money faster. Most major full-service brokerage firms today offer these plans.

DEFINED-BENEFIT PLANS

Business owners over the age of 50 who have no employees and enjoy a high level of dependable income should consider setting up one of these plans. The reason: **defined-benefits plans** allow you to put away more money than any other plan around. If you can afford to contribute more than $55,000 a year and are confident that you can do this yearly until you reach age 59½, this plan is for you. How much more? A lot more. *In 2018 you can put up to 100 percent of your compensation, not to exceed $220,000.* Yes, you read that correctly! You can put up to $220,000 tax-deductible into a defined-benefit plan. That's huge! We're talking big money here! If you have a nice large income and you are over age 50 you should really look into these plans while they are still available.

This is not, however, a do-it-yourself kind of retirement plan. To set one up, you will need to hire a financial advisor who specializes in defined-benefits plans as well as a third-party administrator to write the plan document for you. You also will want to work closely with an accountant to make sure your plan conforms to all IRS guidelines and that you are filing the yearly reporting forms correctly. But don't let this extra work scare you. If your income is sufficiently high, in just 10 years you could put enough into a defined-benefits plan to be able to retire! One caveat on this plan, if you have employees, there are huge liabilities. This is the ideal plan for a high-income family-run business or solo business.

THE SIMPLE IRA

The biggest disadvantage of defined-contribution plans is that they don't allow your employees to put their own money into the plan. That's not a problem with the new **SIMPLE IRA** (Savings Incentive Match Plan). Introduced in 1997, this plan is meant for small companies (those with less than 100 employees) looking for an easy and affordable retirement program—in other words, something simpler and cheaper than a 401(k) plan.

As with a SEP-IRA, the employer must contribute to the plan on the employees' behalf, and these contributions vest immediately. Then again, they are relatively small—limited to 3 percent of each employee's total compensation. Employees are able to defer up to $12,500 in 2018. Unlike the SEP-IRA, the SIMPLE IRA has a required employer contribution. However, they are tax-deductible. All things being equal, if you have employees I recommend you open up a regular 401(k) plan for your company and pass on the SIMPLE IRA. These are not as simple as they sound. There are plenty of companies today offering 401(k) plans to small businesses.

FIGURING OUT WHERE ALL THIS MONEY

GETS INVESTED

Now that we've covered *how* to save your retirement money, it's time to think about *where* you're going to invest it. Making investment decisions is really not that complicated. In fact, we can sum up everything you need to consider in what I call…

THE FINISHRICH RULES OF RETIREMENT INVESTING

RULE NO. 1

Know what your money is doing.

This may seem obvious, but I have to start with it. Don't ever put money in a retirement account and then forget about it. You have to know exactly what your retirement funds are invested in. Don't make the mistake of thinking you know. Pull out your statements and get familiar with what you own. Whatever you do, don't keep your long-term retirement money sitting in a lazy investment like a certificate of deposit. In the financial-planning business, we call certificates of deposit "certificates of depreciation." That's because the return on CDs is usually so low that it doesn't even keep up with inflation.

CDs are great investments if all you're interested in is preserving capital —say, if you're already retired and can't afford to take any risk at all with your money. But if your goal is to build a retirement nest egg, investing in something that generates an annual return of only 5 percent or so is crazy. Actually, there's a technical term for that kind of retirement strategy: I call it ***Going Broke Safely!***

RULE NO. 2

Make sure your retirement money is invested for growth.

When you're building your retirement account you can't finish rich with

fixed-return investments. It's that simple. Fixed-return investments such as certificates of deposit are earning less than 3 percent right now, and if that's all you're making on your money, you may never be able to build substantial wealth.

The fact is, most people undercut their ability to finish rich by investing too conservatively. Because their retirement money is so important, they don't want to take any chances with it. What they don't realize is that the biggest risk you run with a retirement nest egg is that it might not be substantial enough to live off of when you retire.

If your money is not growing at a rate at least 4 to 6 percentage points higher than inflation, you face the possibility of outliving your income. The bottom line here is that *you need to invest for growth*. In practical terms, this means that a portion of your retirement portfolio must be invested in equities. You can do this by purchasing individual stocks or shares in one or more equity-based mutual funds. But whatever form it takes, you've got to keep at least some of your money in equities.

RULE NO. 3

Allocate your assets so that you maximize return while minimizing risk.

The rule of thumb when it comes to investments is simple: the higher the return, the higher the risk. What this means is that a smart investor is always engaged in something of a balancing act. As I noted, being overly conservative when it comes to your retirement nest egg can undermine your chances of finishing rich. On the other hand, you don't want to be too much of a gambler. The key to finding and maintaining the right balance between risk and reward is what is known as asset allocation.

Asset allocation is one of those terms that can sound more complicated than it really is. In fact, all we're talking about here is how much of your retirement money should go into relatively safe, relatively low-yielding investments (like fixed-return CDs) and how much should go into riskier,

higher-yielding investments like growth stocks.

Figuring out how to allocate your assets doesn't need to be difficult. Obviously, as my grandmother liked to remind me, you don't want to keep all your eggs in one basket. But how do you know what proportion of your nest egg should be invested in equities vs. fixed-income securities? There are all sorts of ways to calculate this. For my part, I prefer the following simple rule of thumb.

Take your age and subtract it from 110. The number you get is the percentage of your assets that should go into equities; the remainder should go into bonds or other fixed-income investments.

Here's how this rule works. Say you're 40 years old. You subtract 40 from 110, and you get 70—which means you should put 70 percent of your retirement assets into stocks or stock-based mutual funds. The remaining 30 percent of your assets should go into safer investments such as certificates of deposit, money-market funds, or fixed-income securities such as bonds or bond funds.

If you'd prefer to keep things even simpler, forget about subtracting your age from anything—just put 60 percent of your retirement in stocks and the remaining 40 percent into bonds. Known as a "balanced account," this allocation typically delivers about 90 percent of the stock market's return with about 30 percent less risk. It's what I call a "sleep well at night" asset allocation, and it's especially good for people who are nearing retirement age.

While this may sound oversimplified—and it is—it's also a great way of maximizing your return while minimizing your risk.

Once you've figured out how you want to allocate your assets, you'll need to choose the actual investments. *Because this decision is more specific, I recommend you discuss it with a knowledgeable financial*

advisor. Reviewing your risk tolerance in detail with a qualified financial advisor can really make all the difference in how you do. If you work with a financial advisor who knows what he or she is doing, the advisor will run you through a detailed financial-planning process to help you evaluate your goals and risk tolerance that will drive your customized asset allocation model. It is critical that you don't take more risk than you are truly comfortable with—and that you understand how much risk you are taking. In any case, whether you plan to go it alone or just want to do your own research, there are plenty of useful Internet sites that can help you with retirement planning. (Check out some of the sites listed on this page.)

RULE NO. 4

Invest in your company's stock, but do your homework!

I mentioned earlier that if you work for a publicly traded company, one of your 401(k) options may be to invest all or part of your retirement nest egg in your employer's stock. As a loyal employee, you may feel this is definitely the way to go. But be careful. While it's certainly true that investing in your company's stock can make you very rich if the company does well (we've all heard about the employees of Google, Facebook, and Amazon who became millionaires and in some cases billionaires), it can also make you poor if the company stumbles. And even great companies occasionally stumble. In 1987, for example, IBM's stock fell by more than 70 percent. There were people close to retirement age at IBM, heavily invested in company stock, who saw literally half their nest egg disappear in a matter of months. Most recently, this month as I write this update, Amazon bought Whole Foods, and as a result rivalry grocery stores saw tens of billions in equity value decline in a day! An entire industry was hit by one simple announcement. Here's what is scary—and I'm making this boldface and all caps so you really catch the point: **MANY OF YOU HAVE WAY TOO MUCH OF YOUR NEST EGG IN YOUR COMPANY STOCK AND YOU DON'T REALIZE IT!** *This works great,*

until it doesn't work.

Not only do great companies sometimes stumble, but great economies sometimes slow, causing great stocks to crumble. So you want to be careful to limit how much of your retirement money you invest in one company's stock—even if that company happens to be the one you work for. Many experts recommend that you never invest more than 10 to 20 percent of your nest egg in your employer's stock. While investing in your company stock can make you rich when things go right, it can also make your poor overnight if things go horribly wrong. My recommendation today is never invest more than 10 percent of your 401(k) plan money in your company stock, and if you're already investing or getting company stock or options, I would pass on investing in the company stock in your 401(k) plan.

I also strongly recommend that you do some research into your own company's stock, before you invest. The simplest way to do this is to call your company's investor-relations department and ask for what they call an "investor kit." Virtually all publicly traded companies offer these kits. They include articles about the company, a copy of its latest annual report, and what is known as its Form 10-K. The 10-K is a report that all public companies are required to file annually with the Securities and Exchange Commission. It provides detailed information on the company and its finances. Whether or not you're planning to buy stock in your company, I suggest that you read its 10-K.

Although the 10-K can look complicated, it's not really all that difficult to understand—and it can be incredibly informative. Indeed, reading through a 10-K will tell you everything from what your company does to how much its top executives are paid. It also details every possible thing the company thinks could go wrong that might adversely affect the price of its stock. This is really important information to know not just as a potential investor but also as a current employee. You can also listen to the company's quarterly earnings conference call with Wall Street analysts or review the transcripts that are often available on SeekingAlpha.com.

Once you've absorbed all this, you can supplement your knowledge by going online and checking out one of the many websites that specialize in providing information about individual stocks.

There are too many to list here, but a useful roster would include the following:

www.google.com/finance
www.finance.yahoo.com
www.sec.gov
www.marketwatch.com
www.morningstar.com
www.valueline.com
www.thestreet.com
www.fool.com
www.barrons.com
www.nyse.com
www.nasdaq.com
www.seekingalpha.com

RULE NO. 5

Make sure you read all of Step Eight.

In Step Eight, I list some of the biggest mistakes investors make. Make sure you read this step all the way through, because committing just one of these errors could cost you a fortune in retirement income.

Well, that's it. The two of you should now have all the information you'll need to create your retirement basket and finish rich. Both of you should know now why you need to max out your retirement contributions and how to invest the money you've committed to put into your retirement plans.

Of course, none of this will matter if you're not totally motivated to ***pay yourselves first.*** I hope you both are. Remember, the one thing that can prevent you from finishing rich is you. If you don't do this stuff, it won't work. If you don't sign up for your 401(k) plan and max it out, or open and fund a SEP if you're self-employed, it's not going to happen. If you don't teach your children about Roth IRAs, they might not learn about them until it's too late.

The key is to act on this chapter *now*. If you set this book down and never come back to it but do what I discuss in just this one chapter, you've got a great chance of ending up in the top 10 percent of wealth in this country. But don't settle for just that. I want to get you to the top 5 percent. And with that in mind, let's look at how you are going to protect your wealth against the uncertainties of life by building a security basket.

---

*I know it's hard to believe that once upon a time you could get a CD at 7 percent, but you could.

BUILD YOUR SECURITY BASKET

So the two of you are putting aside a set percentage of your income, building a retirement basket that will enable you to finish rich. I'll bet you both feel a lot more secure about the future than you did when you first started this journey. You should, because you are. But that doesn't mean you can sit back and relax. Just the opposite—now is the time to start planning seriously for life's unexpected problems.

THE REALITY IS THAT SOMETIMES LIFE IS MESSY

I'm a positive person and I'd like to be able to tell you that everything is always going to be just fine for all of us. Unfortunately, the reality is that sometimes things don't go that way. The reality is that sometimes things can go wrong—*really* wrong. People lose their jobs, marriages fall apart, businesses go bankrupt, breadwinners get sick and occasionally even die. *Stuff happens.*

There's no getting around it. Stuff has always happened, and it's not going to stop happening now just because you've decided to be smart

about your finances.

But that's no reason for the two of you to get discouraged.

If you know that things can go wrong, then you can prepare yourselves, and being prepared puts you in a position of power. Having a "Plan B" in case things don't work out the way you want them to doesn't only make you *feel* secure, it actually *makes* you secure. That Plan B, of course, is your security basket, and building it is like building the foundation for your family's financial home. You could build a really great house (by doing a great job on your retirement basket), but if you don't put it on a solid foundation (a well-stocked security basket), that gorgeous home of yours (your financial well-being) could come crashing down on you and those you love.

HOPE FOR THE BEST, BUT PREPARE FOR THE WORST

The point of a security basket is simple. It's meant to protect you and your partner and your children (if you have any) in the event you're hit by some unexpected financial hardship. This hardship could be something major, like the loss of a job or a death in the family. Or it could be something minor, like the car needing new brakes or the dishwasher going on the fritz. The point is that unanticipated problems are bound to arise, and while you may never be able to guess in advance where exactly they might come from, you can still be in a position to handle them.

In my seminars, I liken the security basket to what the automobile companies like to call their "passive restraint systems"—that is, the seat belt and air bag that are required in all new cars these days. When you get a new car, you pay for an air bag and you wear your seat belt as a matter of course. This doesn't mean you want or plan to get in an accident. You're simply being smart; you're making sure you'll be protected in the

event of a crash. Well, that's exactly what we're going to do now. We're going to install a financial "air bag."

SIX THINGS TO DO RIGHT AWAY TO PROTECT YOURSELVES

In order to be properly protected, you must fill your security basket with the following six safeguards.

SAFEGUARD NO. 1

Set aside a cushion of cash.

When I was a little boy, my Grandma Bach used to tell me, "David, always have some 'rainy day' money, because when the rain comes, cash is king!"

It was good advice then, and it's good advice now. I know I feel better having a nice cushion of cash available in case of trouble. You will too. So follow my grandma's advice and set up an emergency account for yourselves. I want the two of you to think of this as your "air bag" of cash, a cushion that will soften the blow in case you lose part or all of your income for any reason (whether it's job loss, disability, a bad economy, or whatever).

The question, of course, is how much of a cushion is enough. How much money do you need to set aside to feel protected—and, in fact, *be* protected—against the "stuff" that "happens"?

The answer is simple. It depends on what you and your partner spend each month. The key word here is "spend." It doesn't matter what you earn. If you're making $5,000 a month, you don't really have $5,000 passing through your hands each month, do you? After all, you're putting at least 10 percent of it into your retirement basket (you are, aren't you?) and you're paying a chunk of the rest to the government in taxes.

The two of you should have figured out how much you spend each month in Step Four ("The Couples' Latte Factor"). If you didn't do it then,

definitely do it now. (You can use the form called "Where Does the Money *Really* Go?")

Once you know the figure, you can calculate how thick your cash cushion should be. In my opinion, the bare minimum you should set aside is an amount equal to three months of expenses. In other words, if the two of you spend $2,000 a month, you need to keep at least $6,000 in cash in your security basket.

But that's just a minimum. In some cases, you might want to keep as much as 24 months of spending in reserve. I realize that's a huge spread. The reason it's so big is that the amount you should set aside depends on a lot of issues. For instance, if you suddenly lost your job, how long would it take you to replace your income? It used to be that the more money you made, the harder it was to find a new job. As a result, experts used to recommend that you should set aside a month's worth of expenses for every $10,000 a year in income you earned. (In other words, if the two of you had a combined annual income of $50,000 a year, the experts would suggest you set aside five months of spendable income.)

Is this sort of caution still necessary? In some sectors of the economy, things are so hot that you can lose your job—and have five offers for a new one in less than a week. But there are no guarantees, and hot economies can turn cold with breathtaking speed. As a result, it's hard to generalize. You and your partner should have a heart-to-heart talk about your spending, your ability to maintain your income stream if one or both of you were to lose your job, and what I call your "sleep at night" factor. The last recession also taught us that things can go bad quickly and stay bad for years. Don't assume your perfect tech job today is safe forever. Whatever you do, nothing will help you through the next recession as well as having a nice big cushion of emergency money set aside.

HOW MUCH MONEY WILL IT TAKE FOR

BOTH OF YOU TO BE ABLE TO SLEEP WELL AT NIGHT?

This "sleep at night" number is different for everyone—including partners. Almost invariably, one of you will require more of a financial -security blanket than the other to be able to sleep well at night. While three months of expenses is the minimum I recommend to save, many couples choose to have as much as 24 months' worth of expenses saved. You need to decide *together* what makes sense for the two of you as a couple.

I will, however, offer one general rule: in my opinion, there is no reason to save more than 24 months of expenses in your security basket. Anything more than that is overkill. And one more thing: if you're in doubt about how much cash to keep in your security basket, err on the side of caution and save more, not less.

DON'T LET THE BANKS GET RICH OFF YOUR CUSHION

It's not just how much you save in your security basket that matters. You also need to address *where* you save it. Most people put their emergency cash cushion in the wrong place—which is to say they keep the money in a checking or savings account at the local bank. That's too bad, because these kinds of accounts pay you almost no interest.

The fact is that the banks get rich off of ordinary checking and savings accounts. That's because while the money sitting in them (*your* money!) is out working for the bank, you're being paid barely any interest at all—and in many cases no interest whatsoever! Not too long ago, out of curiosity, I went to a local branch of one of the biggest banks in the country and asked how much interest they paid on checking-account deposits. The answer was 0.01 percent. Pardon me, but that's too low!

For your own good, please decide today that you will stop letting the banks pay you a low level of interest on your checking account. The fact is, you can go to virtually any brokerage firm in any city—or go on the Internet—and open an online savings account, what is known as a money-market account, that will pay you 100 times more, or 1.0 percent or higher. Now, as I write this, I realize that 1 percent is still low, but it is 100 times better than zero.

In most cases, money-market accounts can offer check writing, an ATM debit card that can also be used as a credit card (and in some cases also earns you frequent-flyer mileage), an annual summary statement that shows where your money was spent, and online bill payment! Think about that. You get a ton of great features and you earn more interest on your money.

Moreover, these money-market accounts are safe. In fact, they are probably the safest investment you can buy. And if you happen to be ultraconservative, you can even get an insured money-market account (though it will usually pay less than an uninsured account). Again, many banks do offer these accounts, but you must ask for them.

HERE'S HOW TO FIND A MONEY-MARKET ACCOUNT

If all this about money-market checking accounts comes as news to you, don't worry—you're not alone. I can't tell you how many times I've talked about them during lectures and seminars and TV shows, and had people come up to me afterward asking me how they can get one. That's not surprising, since the banks don't want you to know about them.

The fact is, these accounts have been around for years. The key difference today is that you no longer have to be rich to open one. You used to need an initial deposit of $10,000 or more to be able to open a

money-market checking account. These days, you can open one with as little as $2,000—and in some cases, with no minimum amount at all.

To save myself the trouble of having to answer all the e-mails I'm bound to get on this question, here is a sample list of several reputable institutions that offer these kinds of accounts. This list is not intended to be exhaustive, nor am I endorsing any of these brokerage firms. It's just meant to give you somewhere to start. I haven't listed the rates—you'll need to do that directly at the websites listed. Not all of these accounts offer checking.

Vanguard ($3,000 minimum)

(877) 662–7447

www.vanguard.com

Fidelity Investments ($2,500 minimum)

(800) FIDELITY

www.fidelity.com

Merrill Lynch ($2,000 minimum)

(877) 653–4732

www.ml.com

Morgan Stanley ($2,000 minimum)

(800) 688–6896

www.morganstanley.com

Charles Schwab ($2,500 minimum)

(800) 225–8570

www.schwab.com

Edward Jones ($1,000 minimum)

www.edwardjones.com

TDAmeritrade (no minimum to invest)

(800) 669–3900

www.tdameritrade.com

Ally Bank (no minimum to invest)

(877) 247–2559

www.ally.com

GSBANK (Goldman Sachs; no minimum required to invest)

(800) 836–1997

www.gsbank.com

Capital One (no minimum to invest)

(800) 289–1992

www.capitalone.com

Five-Star Tip: Interest rates change daily. To find the current rates on money-market accounts and compare them, visit www.bankrate.com and **www.ratepro.com** [website no longer available] (reviews nearly 5,000 funds and highlights the highest rates; this site is owned by bankrate.com).

SAFEGUARD NO. 2

Both of you absolutely MUST write a will or set up a living trust.

People come up to me at seminars all the time and ask, "If I die, what type of will should I have?"

If you die?

I'm sorry, but we're all going to die. This is one fact of life that we simply can't avoid. People may be living longer these days, but sooner or later every one of us is going to wind up somewhere other than here. Sure, it's sad, but you know what the real tragedy is? The real tragedy is that two-thirds of us die intestate—that is, without having written a will or set up a living trust that specifies what should be done with our money and

other property, to whom it should be distributed, and how.

If you love anyone—*anyone*—you can't let that happen. You must set up a will or living trust!

This is not debatable. This is not couple-specific. If you are in a committed, long-term relationship, whether the two of you are married or not, you must arrange to have a qualified attorney draft a legal document that sets out what you want to happen in the event one or both of you becomes incapacitated or dies. Remember, stuff happens.

This legal document should address the following key issues:

WHAT SHOULD BE DONE WITH YOUR PROPERTY WHEN YOU DIE?

Do you want all of your assets to go to your spouse or partner? Maybe you want to leave something to a sibling or a parent or a friend. What about your children? What about your partner's children? Perhaps there is a charity, church, or school you want to remember. If you don't prepare a legal document that spells all this out, you're going to leave a terrible mess for those you love. And I'm talking about a lot more than just a minor inconvenience. Families are torn apart by these sorts of issues all the time.

WHAT HAPPENS IF BOTH OF YOU DIE AT THE SAME TIME?

You may think this is far-fetched, but it does happen and it's something you need to consider—especially if you have kids. What would you want done with your assets if the two of you were to die together? If you have kids, who would you want to raise them? Who should be responsible for managing their money? Unless you specify all this in advance, the

government will step in and make these decisions in your place. Do you want the government deciding what to do with your kids? Smart Couples don't let the government decide anything this important. Smart Couples make sure they have a properly drafted will or trust.

WHAT HAPPENS IF ONE OF YOU GETS SICK (OR BECOMES OTHERWISE INCAPACITATED) AND CAN NO LONGER MAKE DECISIONS?

This thorny question is handled by a document known as a "living will." It's an attachment to your will or trust that spells out how each of you wants to be treated in the event either of you gets so sick or is so badly injured that you can't communicate your needs and desires. If, say, you are hit by a car and are brain-dead, do you want the hospital to keep you alive by hooking you up to a respirator? Speaking personally, if it happened to me, I wouldn't. You may feel differently. The point is, if you don't specify this sort of thing in your will or trust, someone else is going to have to make this brutal decision for you. This is not the kind of issue you want your family fighting over in the midst of a tragedy. Among other things, your living will should contain a durable and healthcare power of attorney. This gives a designated person (such as your partner) the legal right to make financial and medical decisions for you in the event you become incapacitated.

Wills and living trusts are not documents you should ever try to draft at home by yourself. Yes, it's true that you can buy a software program for $29.95 that supposedly provides you with all the forms and templates you need. But probate law is very tricky and complicated, and it varies from state to state. Moreover, one tiny mistake in a poorly drafted will or trust can invalidate the whole thing, or at the least open it up to being contested.

The point is, there's too much at stake here for you to take any chances. Spend the time and money to find a good attorney who specializes in wills and trusts, and have him or her draft the document for you. A decent will shouldn't cost you more than $1,000; setting up a trust is a bit more expensive—between $1,000 and $2,500. No, none of it is cheap…but believe me, it's worth it.

WHAT IS A LIVING TRUST?

Before we go any further, I should probably explain a little about living trusts. A living trust is basically a legal document that does two things. First, it allows you to transfer the ownership of any of your assets (your house, your car, your investment accounts, whatever you like) to a trust while you are still alive. Second, it designates who should be given those assets after you die. By naming yourself the trustee of your trust, you can continue to control your assets—which means that as long as you live, the transfer of ownership will have no practical impact on your ability to enjoy and manage your property.

The main advantage a living trust has over a simple will is that if you create a living trust properly and fund it correctly, your assets won't have to go through probate when you die. That is, your instructions regarding the distribution of your assets won't be reviewed by the courts. This is very, very important. By avoiding probate, you can save thousands of dollars in attorney's fees.

In addition, you will be able to maintain your estate's privacy. (Once an estate goes through probate, all the details become a matter of public record.) In a perfect world, this might not matter, but the world isn't perfect. Sadly, there are people out there who make their living reading probate records and trying to figure out how they can get their hands on your money. The fact is, anyone can say that they were promised a piece of

your estate. They can show up in court and insist they were your best friend and that you promised to leave them $50,000 when you died. Even if it's a total fabrication, your family will still have to pay some attorney good money to fight the claim.

Another big advantage of a trust is that it can save your heirs a lot of money. If you have a large estate (that is, one worth more than $650,000), a well-written trust can reduce the estate-tax bill by tens—sometimes hundreds—of thousands of dollars.

There are too many different kinds of trusts for me to be able to list them all. The key thing to know about trusts is that there are primarily two types: one that is **revocable** and the other type that is **irrevocable.** You can change or cancel revocable trusts at any time. With an irrevocable trust, you've made a decision for life (that's a big deal, as circumstances do change). Irrevocable trusts are typically used to hold insurance policies and can be very helpful to reduce estate taxes. Just be very careful before you sign an irrevocable trust, because it's a permanent decision. The next thing to know is that trusts are either "living trusts" or "testamentary trusts." In other words, a living trust benefits you while you are alive and is transferred to your beneficiaries when you die, an example being a "Revocable Living Trust." A testamentary trust is a trust that goes into place after death. This is very common for parents to set up for their kids or grandchildren to take effect upon the death of the parents.

Here is a list of some common types of trusts. It is not exhaustive, but should give you a helpful overview.

Revocable Living Trust: This type of trust is designed to protect your home and your brokerage accounts, and to help your estate avoid probate. It is extremely flexible and easy to set up, and can be changed whenever you like throughout your lifetime. It's the most commonly used trust, and you don't need to be rich to want to have one of these (you simply want to avoid probate).

Marital and Bypass Trust: This is also a revocable living trust. Often

referred to as an "AB" trust, it is mainly used to reduce estate taxes. This was hugely popular when this book was originally written and is less popular now. Why? Because today, as a result of portability provisions in the the American Tax Relief Act, if you have more than $10 million, that can be excluded from a couples estate.* If you're approaching this number, you really should review this with an estate attorney. Lastly, each state has its own limits, making it more complicated.

Qualified Terminable Interest Property Trust: The QTIP trust is often used by wealthy people who've been married more than once. Say you've got a new spouse and want him or her to be provided for, but intend your family fortune to eventually go to your children by a previous marriage. A QTIP trust will provide income to your surviving spouse for the rest of his or her life, then pass to your children (or whomever you happen to name as the ultimate beneficiary).

Charitable Remainder Trust: This trust allows you to continue to live off the proceeds of your estate even after you've donated it all to a charity (and presumably reaped some hefty tax advantages in the process). Typically set up by very wealthy families, it can provide you and your designated heirs with income for the rest of your lives, but once you are all gone, the estate will go to the charity.

Irrevocable Life Insurance Trust: This is a great way to protect the real value of your estate using life insurance to fund and pay for the estate taxes or simply remove the life insurance from the brutal impact of estate taxes. The key thing I want to remind you of here is that once you put the asset in this trust, it's technically not yours and the decision is irrevocable. High-net-worth clients use these trusts regularly; just make sure you know the pros and cons clearly.

Because estate planning is so important and so complicated, I strongly recommend that you hire a qualified professional who specializes in this sort of thing. Don't hire the local attorney; hire an estate-planning expert who spends all his or her time drafting trusts.

WHAT *NOT* TO DO WITH A LIVING TRUST

The trick to making a living trust work for you is to fund it correctly. Many well-intentioned couples set up a living trust, but then they forget to switch their house title or their brokerage accounts from their own name to the trust's name. If you neglect to do this, instead of being protected, your most important assets could end up in probate when you die.

Changing the name in which an account or some other asset is held is called "replating." It's an easy process, but you have to remember to do it. Just call your brokerage firm or your real estate title company and explain to them that you've created a living trust and you need your account "replated." They handle this sort of thing all the time and will know exactly what to do.

You'll still need to double-check their work. A minor typo—a misspelled name or an incorrect account number—can create major problems later. Generally, the best way to protect yourself is to have your attorney add what's called a "spillover clause" to the trust. This is an addendum that lists what you intend to put in the trust; as a result, even if you forget to replate some assets, they'll still be covered.

DON'T PUT YOUR IRA IN A TRUST

Occasionally, a couple will take the advice of an inexperienced attorney who recommends that they put their IRA in their trust or make their trust the beneficiary of their retirement accounts. Or they will misunderstand their attorney and do this on their own. Leaving a retirement account to a trust is one of the biggest—and most common—mistakes people make with trusts. The fact is, on its own, a retirement account is not subject to probate or estate taxes. If your spouse has a qualified retirement account that names you as the beneficiary, you are eligible to inherit it free and

clear. But if you put the IRA in the trust or if the beneficiary happens to be a trust—even if it's *your* trust—the retirement account can become subject to estate taxes. This is not a good thing, and I've seen it happen more than once. So if you set up a trust, leave your retirement accounts out of it. One possible exception to this rule is if your kids are the contingent beneficiaries and you have set up a trust for them upon the death of both you and your spouse. The trust can have "qualified language" which will allow the retirement assets to be in a "Stretch IRA" and the money can then be taken out over the beneficiary's lifetime vs. the five-year mandate. Confused? I told you this was confusing, which is why you really need to work with professionals on this.

Of course, this is hardly the only mistake people make concerning wills and trusts. Here are three other ones I come across all the time.

THE MOST COMMON ERRORS PEOPLE MAKE WITH WILLS AND TRUSTS

1. Not seeing it through

A couple meets with an attorney to discuss drafting a will or living trust. The attorney gives them a list of things to think about and decide—whereupon the couple goes home and never follows through. Or worse, they make the decisions but never get around to signing the trust documents. As a financial advisor, I see this constantly. In some cases, I've had clients take a full year to finish the process, mainly because they kept procrastinating. Don't procrastinate. Make an appointment with a lawyer, give yourselves a deadline, and get it done.

2. Hiding the documents where no one can find them

People go to all the time and expense of drafting a will or living trust, and then what do they do? They hide the documents! Sometimes they hide the documents so well that they stay hidden, never to be found by those who

need them.

Either that or they put their will or trust documents in an obvious place—like a safety deposit box at the bank—and guess what they do with the key? That's right, they hide *it*.

Pretty funny, right? Wrong. Your loved ones will have more than enough to deal with when you die without having to go on a scavenger hunt for your will or trust documents. To spare them this agony, I recommend that you put your will or trust documents (along with any other important papers, such as insurance policies, deeds, and the like) in an easy-to-find location—*and then tell your loved ones where it is!*

You should also make sure your attorney has a copy of your will or trust documents on file. Most do this as a matter of routine, but double-check, just to be sure.

3. Not keeping things up to date

I often meet couples whose wills or trusts were written 20 or 30 years ago and haven't been revised since. Indeed, I know plenty of couples whose wills still specify who should get custody of their children in the event both parents die—even though the children are now in their forties with children of their own. People at my seminars laugh when I tell them this, but it's more common than you might think.

As the circumstances of your life change, your will or trust should change along with them. At the very least, make sure your will or trust is updated regularly. This means at least every five years…or anytime something material changes in your life.

One last suggestion: if you have elderly parents, make sure they've got a will or trust in place. You'd be surprised how many don't.

The reality is, if your parents don't get their act together, you will more than likely end up faced with a big mess. While the idea of initiating a conversation with your parents about wills and such may make you a bit uncomfortable—believe me, it will ultimately be more than worth the

trouble.

SAFEGUARD NO. 3

Buy the best health coverage the two of you can afford.

When I originally wrote this book I said, "The U.S. health-care industry is a mess, and it's probably going to get worse before it gets better." To say that was an understatement is putting it mildly. It's almost impossible to update this section of this book right now as our politicians fight about the direction of our healthcare system and the healthcare system is in such flux. The truly sad part about healthcare is that it's simply not affordable for too many people. And yet we all need medical insurance! This is a life-or-death issue.

Government data on Heathcare.gov shows that the average three-day stay in a hospital can cost about $30,000. On average around the country, the minimum hospital stay is around $1,500 to $2,000 a day, not including the actually treatment you may be receiving or your doctors' fees. I had a client who was never sick a day in his life suddenly discover he had cancer. He wound up spending $50,000 on chemotherapy in just a few months. Another otherwise healthy client of mine was involved in a car accident. In less than two weeks, he ran up medical bills totaling more than $100,000. In fact, a similar thing happened to me. When I was 15, I got hit by a car while I was riding my moped. It took six surgeries and three months in the hospital, followed by a year of physical therapy, before I was able to walk again. The bills totaled well into six figures.

Fortunately, both my clients and my parents had medical insurance that covered virtually all the costs.

Unfortunately, not everyone is so lucky. According to a recent study by the Kaiser Family Foundation, about 29 million people still lack health insurance. This is frightening.

So no debating here. You must have health insurance. Furthermore, as

of now under the Affordable Care Act (ACA), most Americans are required to have some form of health coverage or pay a tax penalty. The only questions in your mind should be how do you get it and what are your options.

Most couples fall into one of two categories. Either you're covered by an employer-provided healthcare plan or you're not—in which case the two of you will need to do some research and find a plan on your own. This process today is done through an insurance broker or through the ACA healthcare portal at **www.healthcare.gov**. I would start by going to www.healthcare.gov and checking the open enrollment dates. From that website you will ultimately link to the website for your state. Depending on your state, you should also have links to the type of financial assistance you may qualify for. In most cases you can complete the application online, or you can do it by phone or even in person. This may sound scary and difficult, and each state continues to work to make it easier. The health plans now come in four tiers: *Bronze, Silver, Gold,* and *Platinum.* According to a recent *USA Today* article, 70 percent of participants have chosen the Silver tier health plan.

My advice about health insurance hasn't changed with this update. When it comes to choosing a plan, I still recommend you purchase the best insurance you can afford. My caveat today, however, is that you make sure the plan you buy is NOT a plan that you can *barely afford*, because when rates go up you may simply not be able to afford it.

If individual coverage turns out to be too expensive for you, you may be able to get a group rate through a professional organization or association. You might even check with your church or synagogue.

If you happen to have corporate medical coverage, don't think that lets you off the hook. In the end, every couple—even if they are covered by their employer—has to make some basic decisions about healthcare insurance for themselves.

With that in mind, let's take a little time to go over the basics of the

most commonly available types of coverage. Frankly, it's quite confusing.

WHAT A SMART COUPLE NEEDS TO KNOW ABOUT HEALTH INSURANCE

Today's plans come with a variety of "letters"—a.k.a. "HMO, PPO, EPO, POS." There are basically two types of health-insurance programs to choose from these days: fee-for-service plans and managed care. Fee for service allows patients the kind of healthcare most of us grew up with. Unfortunately, because of the cost, fewer and fewer companies are offering it to their employees. Managed care is less expensive and, as a result, far more popular.

FEE-FOR-SERVICE PLANS

These are referred to as FFS plans. Once upon a time, most Americans had a family doctor whom they really knew and who really knew them. They went to this doctor whenever something was wrong with them, and if that something turned out to be especially complicated or obscure, the family doctor would refer them to a specialist.

Under a fee-for-service plan (also known as an indemnity plan), you can still be treated this way. You can continue to see the same family doctor, whether or not he or she is part of any program. You can switch physicians anytime you'd like, without needing anyone's permission. If you want to see a particular specialist, you go to that particular specialist. Once you've paid the deductible, the plan typically pays 80 percent of your bill up to an annual cap.

There is, of course, a catch. The premiums for these sorts of policies are expensive—so expensive in fact that fewer than one out of every five

companies is still willing to offer fee-for-service or indemnity coverage to their employees.

Despite the cost, if your employer happens to be one of the few who still offers the option of electing an indemnity or fee-for-service plan, I would urge you to consider it seriously. Yes, it will probably be the most expensive plan you can choose, but it's also bound to be the most flexible one, providing you with the most freedom and the most choices. Personally, when it comes to my healthcare, I like having the freedom to choose. It's highly unlikely this will be the type of plan you consider today because it's more than likely not an option.

MANAGED CARE

Because of their lower cost, most employers—not to mention most self-employed people—prefer managed-care plans these days. Managed care comes in four basic forms: through health maintenance organizations (HMOs), through preferred-provider organizations (PPOs), through exclusive provider organizations (EPOs), and through point-of-service (POS) plans.

HMO COVERAGE

A health maintenance organization is, in effect, a group of healthcare providers who have joined together to provide comprehensive healthcare coverage for subscribers. HMOs are generally the oldest managed-care systems around. They are also among the most restrictive.

When you sign up with an HMO, you are given a list of doctors from which you must select a "primary-care physician." Otherwise known as a "gatekeeper," this doctor is the one you must see whenever you have a

medical problem, regardless of what the problem might be. In other words, if you wake up one morning and notice a spot on your leg, you can't go directly to your dermatologist. You have to make an appointment with your gatekeeper first. If it turns out you need to see a specialist, the gatekeeper will refer you to one within the HMO. If for some reason you want to see a specialist who's not part of your HMO, too bad. The visit will not be covered.

The good news about HMOs is that they are less expensive. Chances are they'll be the cheapest healthcare option your employer offers. In most cases, you'll have to make a $10 to $50 copayment when you visit your primary-care physician. The same is generally true for prescription drugs; indeed, some HMOs don't make you pay anything for drugs.

HMOs vary widely in cost and quality of service. Some people love their HMOs and will tell you they are the only way to go because they are so affordable and easy to use. Others will complain bitterly about not being able to see the doctors they want or get the treatment they feel they need. All things being equal, I'd spend more money and consider the next two options.

PPO COVERAGE

A preferred-provider organization usually consists of a group of individual physicians, medical practices, and hospitals that have joined together in a loose coalition to create a "group network." In some ways, PPOs look and feel a lot like HMOs, but there are some distinct differences that I think make the PPO approach much better. For one thing, PPOs may not require you to have a gatekeeper. You still have a primary-care physician, but if you want to see a specialist, you can go on your own without a referral. Also, you can use a specialist who's not a member of your PPO's group network and the PPO will still cover at least part of the bill.

Not surprisingly, all this flexibility comes at a price—literally. PPOs are more expensive than HMOs. Their premiums are slightly higher, the copayment will be higher, and some PPOs require you to pay an annual out-of-pocket deductible of from $250 to $500, or even $1,000 or more before their coverage kicks in. But, again, the costs depend on the deductible and tier you select—they could be much higher.

EPO COVERAGE

Exclusive provider organizations are a lot like HMOs; they generally DO NOT provide out-of-network coverage. There has been a lot of controversy over these plans; class action lawsuits have claimed the EPOs did not clearly disclose that people were signing up for an EPO and instead thought they were getting a PPO. Be very careful about these before you go forward—get the clear facts. The fees cover a wide range based on the plan level and deductible.

POS COVERAGE

Point-of-service plans are becoming increasingly popular, probably because they offer subscribers the widest array of choices of any managed-care plan. Combining features from both HMOs and PPOs, the POS plan allows you either to stay within the plan's network of doctors (thus saving money) or to elect to go outside, in which case you have to pay a deductible (as with a PPO). This is often referred to as "hybrid" plan because it's a combination of an HMO and a PPO.

CONCIERGE MEDICINE

This is a new type of medical service, more expensive, with higher-touch service. According to *MarketWatch,* this type of medical care practice has grown sixfold in recent years, and there are now over 4,400 nationwide. The doctor or medical practice typically charges annually between $2,000 and $5,000, depending on the practice, service, and city in which it is located. The big draw is that you can get an appointment with these doctors quickly, and some will even come to your home. Some of the doctors or medical practices accept insurance and some do not. There are also new medical practices that are a more affordable version of concierge services. I recently joined a new practice in New York City called *One Medical* (www.onemedical.com); membership costs $199 a year (on top of my insurance, which allows me to use them). This company is currently in eight major cities and the number is growing. My most recent experience with my doctor blew me away. I was able to get a next-day appointment (which is amazing considering that the average time it takes to book a doctor, according to *New York Times,* is now 29 days), and the doctor spent an hour with me just going over my routine bloodwork. This doctor, with 30 years of experience, really took the time to review the results of my physical and make suggestions. With *One Medical*, everything is now done online with an app—also a vast improvement over my previous doctor. Many medical practices are becoming available in the twenty-first century that are on the cutting edge of service and technology. If you don't have one now, it may be time to take a look.

HOW DO WE CHOOSE WHICH PLAN IS BEST FOR US?

I used to recommend that you select the the most expensive choice. I said this because in almost every case the most expensive choice will provide you with the most options, and when it comes to your healthcare you want to try to cover all the bases.

I said that I used to recommend the most expensive option. Today, with health insurance costing literally two to three times more than it did 20 years ago, I can't make a recommendation as simple as advising that you select the most expensive choice with the most options. I realize you may barely be able to afford what you have *now*. You are going to need to really look into your plan options. If you change providers can you continue to see your current doctors? If not, are you comfortable with the new plan's doctor and hospital options? Does it cover your drug needs? What *does* the plan cover? How big is the deductible? Can you afford the deductible? And, most important, can you ultimately afford the plan you just selected?

If both of you happen to have corporate coverage, I'd suggest that you compare plans. One of them may be noticeably better than the other, in which case you may want to cancel the lesser plan and use the superior one to cover both of you. Over the long run, doubling up on one good plan may be cheaper than being on two separate ones. Don't do this, however, if the partner with the good coverage is at all likely to change jobs in the near future! *In many cases it makes sense to have two separate health care plans to protect you in case one of you loses your job or decides to leave.*

IF YOU'RE PLANNING TO HAVE CHILDREN...

Needless to say, couples who are thinking about having children should make sure they choose a medical plan that offers first-rate maternity coverage. If the two of you are planning to have a baby in the next year or two, call your company's benefits department and ask them which plan they recommend for prospective parents. If they won't give you any guidance, ask any coworkers you know who have had children.

In addition, it's always a good idea to contact the healthcare providers

directly. A really smart strategy is to select your medical plan *after* you select your doctor and your hospital. First, find the doctor and hospital you want. Then ask them which plans cover their services. Hopefully, you'll be able to sign up for one of these plans.

WHAT ABOUT SELF-EMPLOYED PEOPLE?

If one of you works for a company that offers healthcare coverage, your problem may be solved—simply go on your partner's plan. If the two of you aren't married, you'll obviously need to make sure the program covers domestic partnerships. Happily, an increasing number of companies are starting to do this.

With that said, many entrepreneurs belong to professional organizations, and many of these offer group plans at bundled group rates. If you don't belong to such a group, why not consider joining one? Beyond that, you can always ask an independent insurance professional about getting coverage. Or you can go online and do your own research. The following websites are a good place to start.

e-Insure Services, Inc.

(855) 372–7400

www.einsurance.com

Insure.com

http://www.insure.com/

eHealthInsurance.com

(844) 839–4346

www.ehealthinsurance.com

Health Insurance

(844) 337–4826

www.healthInsurance.org

Freelancers Union

www.freelancersunion.org

SAFEGUARD NO. 4

Protect those who depend on you with life insurance.

Most people hate to talk about life insurance, but if you've got anyone in your life who counts on you for financial support, then you need to have some sort of protection plan in place in case something happens to you. And that's all life insurance is—a protection plan. When you die, the person (or people) whom you've designated as your beneficiary will get a lump-sum cash payment known as a death benefit. Certainly, there's no law that says when you die you have to leave someone else wealthy. But if there are people who depend on you—such as children or a nonworking significant other—you have a responsibility not to leave them in a world of financial pain.

SOME UNFORTUNATE STATISTICS

As a man, I hate to address this but the reality of life is that women tend to outlive us (on average, women live seven years longer than men). Combine this with the fact that women also tend to marry men older than they are and what results are some scary statistics. **For one thing, the average age of widowhood is now 57 and 75 percent of married women will ultimately be widowed.**

All this is sad enough. Even worse, however, is to see a widow who thought her husband was insured—only to find out later (after it was too late) that he wasn't or that he didn't have enough coverage. Since the original version of this book came out I have received many heartfelt

letters from widows who have thanked me for this one section of the book. Jessica wrote to me and said, *"David, thank you for* Smart Couples Finish Rich*—your book turned out to be a true blessing to me at the worst possible time in my family's life. My husband, Reed, and I read your book together; the one thing we got done immediately after reading it was to buy a term insurance policy. We were only in our 40s but your book pointed out the importance of protecting our family. Reed was killed in a car accident last month. Were it not for your book and our taking out this term policy, my two kids and I would be homeless by the end of the year. Instead, we now have no mortgage and enough money for me to be a full-time mom and raise them. College will also be covered thanks to the amount of insurance we took out. Thank you!"*

Buying term insurance is one of the most romantic things you can do. Seriously. I say this in speeches and it gets laughs, but I'm not kidding. Please read this entire section of the book and take action if you need to.

HOW MUCH LIFE INSURANCE SHOULD WE BUY?

What I said about health coverage applies here, too: life insurance is not a place to cut corners. Ideally, you want to purchase enough coverage to enable those you love to live comfortably should something happen to you. But how much is that?

Here's a list of questions the two of you need to ask yourselves in order to get a ballpark idea of how much life insurance you need.

1. Who relies on our income right now?

The first question you need to ask yourselves is who would get hurt financially in the event one of you were to die. If you have kids, could the surviving partner handle things financially on his or her own? What if both

of you died at the same time? Don't assume that your parents or a sibling could or would shoulder the burden in your place. That's not fair to anyone. What if you're in a second marriage and have kids by a first? Could you depend on your ex to pay for your children's upbringing? If the two of you don't have children but live in a nice house and generally enjoy the good life, would the surviving partner be able to maintain that lifestyle if one of you passed away? What about college expenses for the kids? The list can be long. You need to think this through past just the first few years of what happens after you die.

2. What does it cost those who depend on you to live for a year?

When you calculate this, make sure you include everything—taxes, mortgage payments, school costs, doctor bills, *everything*. How many years to you want to protect and provide income for your family if you or your spouse dies prematurely?

3. Are there any major debts that would need to be paid off or unexpected expenses you might incur?

If your spouse owes money (whether in the form of a mortgage, an auto loan, credit-card debt, back taxes, or whatever), you won't necessarily be let off the hook just because he or she has died. In fact, you could wind up inheriting the debt. Not much fun, which is another reason you may need more insurance than you think. What about funeral expenses, probate costs, and estate taxes? These could run into tens of thousands of dollars, if not more. What if your partner owned a business? Could it continue to run without him or her? Are there business debts that would need to be paid off?

4. Does either of you have a company policy?

Many companies pay for a limited amount of life insurance for their employees. Find out if yours does, and if so, don't forget to factor in that

death benefit when you calculate how much additional coverage you need. You should also find out if your policy at work is known as a "portable policy"—meaning you actually own it and can take it with you if you leave your job. If your company policy is not portable, you could find yourself in a very scary position, with no job and no life insurance coverage. So pull out your company policy and make sure you understand what kind of coverage you've got.

FINDING THE RIGHT "BALLPARK"

Now that you've gotten an idea of how big a financial "hole" your death might leave, you can calculate how much life insurance you should purchase. My ballpark recommendation is that you take out a policy with a death benefit that totals somewhere between 6 and 20 times your annual spending needs. For instance, if it takes $50,000 a year in spendable income to cover all your obligations, you may want to consider a death benefit of between $300,000 and $1 million.

Which end of that range should you lean toward? It depends on what your current assets are and how much of your debt you feel should be paid off. Needless to say, everyone is different. Some people want to ensure that their dependents will never need to work again, while others feel a 10-year cushion is more than enough.

MAKE SURE YOU INSURE A "STAY-AT-HOME" PARENT

One of the biggest mistakes I see couples make with insurance is not insuring the parent who stays at home raising the kids. If you are married with children, or simply living together with children, don't make the

mistake of insuring just the person who is "working" out of the house. Many men assume incorrectly that if their wife is a "stay-at-home mom," they are the only ones who need insurance, since they are the ones working. Really? What happens if Mom or a stay-at-home dad dies? Someone is going to need to take care of the kids. That means either hiring a nanny or sending the kids to day care full-time. Either way, this costs money! So be smart and insure both of you.

WHAT TYPE OF LIFE INSURANCE SHOULD YOU BUY?

There are literally hundreds of different kinds of life insurance policies. If you find yourself confused by all the variations, you are not alone. Indeed, when I ask people what type of life insurance they have, most don't really know. Fortunately, when you break it down, life insurance isn't really all that complicated.

There are basically two types of life insurance—term insurance, which builds no cash value, and permanent insurance, which does.

TERM INSURANCE

Term insurance is very simple. You pay an insurance company a premium, and in return the insurance company promises to pay your beneficiary a death benefit when you die. Specifically, term insurance provides you with a set amount of protection at a set price for a set period of time. As long as you pay the premium, you're covered. Stop paying, and your term policy will lapse—meaning, no one will get any death benefit when you die.

The main advantage of term life insurance is that it's relatively inexpensive. Indeed, term insurance is the most inexpensive type of life insurance around. It's also relatively easy to get. You can buy it on the Internet these days, where it's cheaper than ever.

The catch is that this type of policy builds no cash value. You can literally pay premiums into a term policy for 30 years, but if you then decide you no longer want or need it, you walk away with nothing. The point of term insurance is solely to provide your beneficiaries with a death benefit. That's it. It's a protection plan, pure and simple…and cheap.

Term insurance comes in two basic flavors—annual renewable term and level term.

Annual Renewable Term With annual renewable term insurance, your death benefit remains the same while your premiums get larger each year. That's because the older you get, the more likely it is that you will die within any given year. (Cheerful thought, isn't it?) More than likely, this is the type of policy you have if you work for a company and signed up for life insurance through the benefits department. The biggest advantage of an annual renewable term policy is that it is really inexpensive when you are young. Indeed, it is by far the cheapest way to buy insurance when you are just starting out. The problem is that as you get older (and the likelihood of death increases), the premiums can become prohibitively expensive.

Level Term Under a level term policy, both the death benefit and the premium remain the same for a period of time that you select when you first sign up. The period can range anywhere from 5 to 30 years. While this type of term insurance is initially more expensive than annual renewable term, it can actually turn out to be cheaper over the long run. For this reason, I usually recommend this type of term insurance to clients. If you choose a level term policy, I suggest you take it for a minimum of 15 to 20 years. If you are in your thirties or younger, a 20-year policy would at least protect your family in the years in which they are likely to have the greatest need for your income.

WHO SHOULD CONSIDER TERM

INSURANCE?

This is actually an easy choice to make. Unless you are purchasing life insurance as an investment (which in most cases is *not* what you should be doing), I recommend you buy term insurance—specifically, a level term policy. The most sensible deal is probably to sign up for a 20-year policy.

THE TIME TO SHOP FOR CHEAPER INSURANCE IS NOW!

Over the last 10 years, the cost of buying term insurance has been cut in half. What this means is that if you've currently got a policy that is more than five years old, you should either get on the Internet or call a good insurance agent to see if you can find a better deal.

In most cases, you should be able to save yourself hundreds of dollars a year in premium costs. Alternatively, you can increase the size of your death benefit without having to pay an increased premium. I've had many clients actually double the size of their death benefits while continuing to pay the exact same premium.

As with so many other things we've discussed so far, this is not difficult to do—but it won't take care of itself. *You need to do it*. I remember a few years ago reviewing the finances of a couple in their early forties named Richard and Leslie. For the most part, they were in great shape, saving plenty of money and maxing out their 401(k) plans. But when I looked at their life insurance, I noticed that they were overpaying for the coverage they had. At the time, Richard was carrying a $250,000 policy, and I explained that for the exact same premium he could double the death benefit to $500,000. He and Leslie both nodded in agreement and said they would take care of it.

Unfortunately, this was one chore that never got done. A few years later,

I heard some terrible news from Leslie. Richard had suffered a heart attack while they were on vacation and had passed away. Because they had neglected to change their policy, the death benefit Leslie received was half of what it might have been.

Leslie told me later that she and Richard really had intended to update their insurance policies. "We left your office really motivated to act," she said. "It's just that we got busy. I didn't expect Richard to die at 42. It wasn't planned."

The sad reality of life is that this sort of thing *never* is planned. So go check your policies now, and if they're more than a few years old, get yourself a better deal! Do not, however, cancel your old policy until the new policy is approved, paid for, and in force.

PERMANENT INSURANCE

Permanent life insurance is also known as "cash value" insurance. To put it simply, it's like taking a term policy and combining it with a forced savings plan that can help you build a nice nest egg. Eventually, you can either dip into these forced savings for income or use them to pay the annual premiums on your policy. If used correctly you can also borrow the money tax-free and use it during your lifetime, or leave a large cash cushion (potentially tax-free) to your beneficiaries. The catch here is that permanent insurance is a commitment and it's expensive. Indeed, it can cost as much as 5 to 10 times more than term insurance.

There are four main types of permanent life insurance: whole life, universal life, universal index life, and variable universal life. Let's go over the basics.

Whole Life Imagine paying for term insurance but adding a 50 percent surcharge to the cost of the annual premium and having some of that extra money put in a money-market account, where it can grow tax-deferred into a little nest egg for your old age. That's what whole life is. It's a term policy with a little cash-value basket added onto it. The problem is that the

money is invested so conservatively that it seldom earns more than 4 or 5 percent a year—which is to say that the policy's cash value grows too slowly to really amount to anything. At the time of this update, the rates are even lower.

Universal Life After decades of being sold on whole life insurance, people began to wake up and realize that it was not the great retirement vehicle they had been told it was. So the insurance industry came up with a new and improved angle. "Instead of just putting your extra premium money in a money-market account," the industry told potential customers, "we will invest it more aggressively and pay you a great rate." Some insurance agents sold these policies on the promise that policyholders could earn as much as 11 percent a year. They would flash fancy illustrations showing that if you earned 11 percent a year, your cash value would be just enormous in 20 years. These illustrations always looked really impressive. The problem was they were just illustrations, not guarantees. Universal life works great when rates are high and the insurance company invests well, but it can be a disaster when the company doesn't or rates simply go down like they have in the past decade. Many people who bought universal life policies back when rates were in the high teens have been shocked in recent years by annual returns of just 6 percent —and they still have to make premium payments. *I intentionally left these numbers from the original book update to show how much things can change in a decade. Today people would be pretty happy with 6 percent. The point here, as I said before, is to focus on the guaranteed return, not the projected return.*

Variable Universal Life (VUL) Insurance If you feel strongly about purchasing permanent insurance—which is to say, if you want life insurance that can also double as a retirement vehicle—you might consider a VUL policy or an IUL policy (covered next). With VUL you get a cash-value policy that allows you to control how the savings portion of your premium is invested. A good VUL policy may offer more than a dozen

different high-quality mutual funds from which you can select. If you want to be conservative, you can choose a bond fund. If you want to be aggressive, you can choose growth funds. The point is, you are in charge. What makes this especially nice is that, as with a 401(k) plan or an IRA, the cash value of your policy can grow tax-deferred. That is, you can change investments, buying and selling funds as market conditions dictate, without having to pay taxes on any gains. Of course, as with any speculative investment, you can also lose money. There is no guarantee that your cash value will only go up.

Indexed Universal Life (IUL) Insurance This is the biggest change in permanent insurance since this book was originally written. Often referred to as IUL or equity indexed universal life, this type of permanent life insurance takes a "hybrid" approach. Basically, you are able to get a guaranteed rate on your policy (a minimum fixed rate) and then an indexed account option. The best way to explain this in plain language is that you get the security of a universal policy with the potential growth of a variable policy linked to an index (for example, the S&P 500). The catch is that you don't get the full benefit of the market index (say, the S&P 500 returns), you get a predetermined percentage. Make sure you're really clear about the index the policy is tied to and the percentage before you sign on the dotted line. Also, ask a lot of questions about how the minimum rate is calculated because it's complicated and you want to understand this clearly before you invest.

WHO SHOULD CONSIDER INDEXED UNIVERSAL LIFE AND VARIABLE UNIVERSAL LIFE INSURANCE?

While I think that term life insurance makes the most sense for most people, there are certain circumstances under which you might want to

consider buying an indexed universal or variable universal life policy. If the following five characteristics apply to you, IUL or VUL may actually be a good idea.

1. You want to build cash value for retirement.
2. You have at least 15 to 20 years to invest in the policy.
3. You earn a high income (at least $100,000 a year).
4. You are already maxing out contributions to a qualified retirement plan.
5. You understand the risks associated with mutual funds and the market.

Keep in mind that IUL and VUL are complicated insurance products that are often sold to the wrong people. At the very least, you shouldn't even consider them if you're not already fully utilizing a 401(k) plan, deductible IRA, or other tax-deferred retirement account.

The reason insurance agents and some financial advisors are so motivated to sell you a permanent policy (whether in the form of whole life, universal life, or variable life) is that they make a lot of money from this kind of insurance. Which is fine, provided they explain this to you in detail, you understand it, and it's right for you. In some cases, the sales commission on a permanent insurance policy can be as much as 100 percent of the first year's premium. With this all said, I personally own a variable universal life policy (I bought it in my twenties); today, If I were doing this again and had to choose a policy, I would definitely select the indexed universal life over the variable universal life (I think it is worth the trade-off of not getting all the upside of the index in exchange for the fixed guarantee). *I do fundamentally believe in permanent insurance (IUL and VUL) for the right investor*. The key words are *right investor*.

WHERE SHOULD WE START?

If you are going to buy life insurance, the two of you should meet with a life insurance professional—*not* a salesperson. Ideally, you should find a true financial planner—someone who has been in the business for at least 10 years and really knows what he or she is doing. Make a point of asking friends and getting recommendations. Insurance is complicated, and because of this I recommend getting professional guidance.

However, some people prefer not to buy through an agent or broker. If you're one of these people, do your research on the Internet. It's never been easier to buy basic life insurance on the Internet (specifically, *term* insurance), and it's never been cheaper. Here are some great sources you can use:

Nerd Wallet

www.nerdwallet.com

Great website for financial content in general. Their insurance screening tool helps you compare insurance from 30 companies (to find it from the homepage, click on "Insurance," then choose the "Life" tab).

Select Quote

www.selectquote.com

Select Quote specializes in term insurance and helps you get quotes from over 70 carriers.

Ameritas

(800) 552–3553

www.ameritas.com

e-INSURE Services, Inc.

(855) 372–7400

www.einsure.com

Geico

(800) 207–7847

www.geico.com

USAA Life Insurance Company

(800) 531–8000

www.usaa.com

SAFEGUARD NO. 5

Protect yourselves and your incomes with disability insurance.

I used to think disability insurance was a waste of money. Then I saw what happened to Christopher Reeve.

Here was a genuine movie star, the original Superman in the movies, a guy so fit and healthy that he literally embodied Superman. Then, in 1995, he fell off a horse and broke his neck. In an instant, everything he had done with his life up to that moment—and everything he was looking forward to doing in the future—disappeared.

Though he continued to work until his death in 2004, Reeve became better known as a tireless advocate for the disabled. Through his Christopher & Dana Reeve Foundation (christopherreeve.org), he raised millions of dollars to support research aimed at finding more effective treatments and possible cures for spinal cord and other catastrophic injuries. This charity continues today.

Reeve also endorsed disability insurance. "I know all too well how quickly a person's life can change and the importance of ensuring a family's financial security," he said. "That's why I'm troubled by the fact that 60 percent of Americans lack any form of long-term disability insurance. That's far too many people at risk."

Reeve was right. Though far more people have life insurance than have disability insurance, the chances of your becoming sick or hurt are much greater than the chances of your dying prematurely. Without disability

insurance you are playing Russian roulette with your income.

Consider the following statistics. In one year…

- One out of every 106 people will die.
- One out of every 88 homes will catch fire.
- One out of every 70 cars will be involved in a serious accident.

But…

One out of every 10 people will have to cope with a severe disability!

What this means is that the greatest threat to your ability to finish rich may be the risk the two of you face of serious injury or illness! And the younger you are, the greater your risk actually is.

Other than your health, your income is probably your most important asset. Lose it and you could be losing your primary means of financial security. That's why we all need to consider disability insurance.

WHAT IS DISABILITY INSURANCE?

Put simply, disability insurance provides income if you are unable to work due to an illness or injury. It will normally provide this income monthly, although there are new policies that can provide the income in one lump-sum amount.

HOW MUCH DISABILITY INSURANCE DO WE NEED?

Disability insurance is not designed to make you rich. Rather, like life insurance, it is a protection plan for your current earning power. Ideally,

therefore, an adequate disability policy is one that would pay you the equivalent of the take-home pay you would lose in the event one or both of you were to suffer an incapacitating disability.

Most disability plans offer a benefit equal to about 60 percent of the policyholder's gross (or before-tax) income. That may not sound like much, but if you pay for the disability policy yourself, any income you receive from it will be tax-free, so 60 percent of your gross will probably be enough to maintain your standard of living. (After all, 60 percent of the gross is about what most of us actually take home.)

If your employer pays for your disability insurance, any benefits you receive from it will be taxed. This means that if the policy only pays 60 percent of your gross income, you're going to come up short. Indeed, once you've paid the taxes on your disability benefit, you're likely to find yourself with only a fraction of your normal take-home pay. To guard against this, you should consider purchasing what is known as a "gap policy" to make up the difference.

DON'T ASSUME YOU HAVE DISABILITY INSURANCE

Many people mistakenly assume they automatically get disability coverage from their employer. Don't assume anything of the kind. If you and your partner work for a company, first thing tomorrow check your benefits statements or phone your benefits departments to find out whether or not either of you has disability insurance. If you don't, find out if you can get it and start the application process immediately. If either of you is self-employed and doesn't currently have disability insurance, make getting it a top priority.

You should apply for disability insurance now, while both of you are healthy. For some reason, people always seem to put this off, waiting until

something is wrong with them before they start trying to get coverage. By then, of course, it is too late. And don't think you can fool the insurance company by fibbing on your policy application. Saying you're healthy when you know you're not, or that you don't smoke when in fact you do, is not only immoral, it's also pointless. Insurance companies will do just about anything they can to avoid having to pay out benefits—including hiring an investigator to check you out. Believe me, if you say anything on the application that's less than honest, they will find out, and your policy will be canceled. (And, no, you won't get your premiums back.)

QUESTIONS TO ASK BEFORE YOU SIGN UP

1. Is the disability plan portable and guaranteed renewable?

If you purchase your policy through your employer, you must make sure that you can take the policy with you if you leave the company. Also, you want a policy that is guaranteed renewable; there is no bigger rip-off than an insurance company that makes you "qualify" every year. This is how a bad insurance company gets out of having to pay you when you file a claim!

2. Under what circumstances will the policy pay off?

Specifically, you want to know whether the policy will cover you in the event you're no longer able to do the work you currently do, or whether it pays off only if you are rendered unable to do work of any kind. In the insurance industry, this is known as "owner occupation" and "any occupation" coverage. Make sure you buy an owner-occupation policy. Why? Well, take me, for example. I happen to make my living talking on the phone, meeting with clients, and speaking at seminars. Now, if I lost my voice and couldn't talk, I would for all intents and purposes be out of a

job. But unless I had owner-occupation coverage, the insurance company could say to me, "So what if you can't talk on the phone or do speeches? There are plenty of other jobs you could do—like digging ditches. So we are not going to pay you any disability benefits." With owner-occupation coverage, they can't do that to me. This sort of coverage is more expensive, but it is much, much safer.

3. How long does it take for the coverage to kick in?

Most disability policies start paying benefits within three to six months after you've been declared disabled. The easiest way to reduce the cost of a disability policy is to lengthen that waiting period. The larger the cash cushion you have in your security basket, the longer you can stretch it out.

4. How long will the policy cover me?

Ideally, your disability policy should pay you benefits at least until you turn 65.

5. Is the coverage limited to physical disability, or are mental and emotional disorders also covered?

A major cause of disability these days is stress. Not all disability policies cover it, however. If you are in a high-stress occupation, make sure yours does.

As with all good and important things, there is a catch to disability insurance. It is expensive, as a result of which most people don't have it. The reason it costs so much is that the insurance companies know there is a good chance they will have to pay off on the policies they write. (This alone should convince you that you need it.) In any case, my recommendation is that you first contact your company's benefits department and see if you can get it through them. Group policies tend to be less expensive and easier to get. If your employer won't cover you—or if

you are self-employed—contact a disability insurer directly. Right now, statistically, the chances that you have disability insurance are low, as only one in four Americans have a disability policy, according to LIMRA and a *Life Happens* survey. Here is a list of some of the larger firms that provide disability insurance. Again, talk to your insurance professional first if you work with one; he or she should be able to assist you.

LifeHappens.org

This nonprofit site (backed by insurance companies) provides additional educational materials on all forms of insurance including disability insurance. They have a nice section on disability insurance, and I like their simple-to-use calculators.

Aflac

(866) 632–4648

www.aflac.com

Colonial Life

(800) 325–4348

www.coloniallife.com

Geico

(800) 207–7847

www.geico.com

Mutual of Omaha Insurance Company

(800) 205–8193

www.mutualofomaha.com

Northwestern Mutual Life Insurance Company

(866) 950–4644

www.northwesternmutual.com

State Farm Insurance Companies

(855) 733–7333

www.statefarm.com

SAFEGUARD NO. 6

If either of you is in your sixties, it's time to consider long-term care coverage.

Once upon a time, individual families provided their own support systems to take care of sick or aged parents. Today, families are often spread out all over the country and, as a result, there is no support system. With average life expectancies climbing, more elderly people are finding themselves in need of either home care or a long-term care facility. Indeed, studies indicate that no fewer than one out of every three Americans over the age of 65 will eventually need this sort of help.

The cost of such care can be staggering. According to Genworth Financial, median nursing home costs can top $80,000 annually. Assisted living can cost more than $40,000, and home health aides will run about $45,000. You may think that Medicare will cover your nursing-care needs. Unfortunately, the reality is that in most cases it won't.

BUSTING THE MEDICARE MYTH

According to AARP, many of us wrongly assume that Medicare will pay for our basic nursing-care needs when we get old. As I noted, we are in for an unpleasant surprise. The fact is, of the billions of dollars in nursing-home costs we incur every year, less than 10 percent are covered by Medicare.

The reason is simple. Most of the care that nursing homes provide to people with chronic, long-term illnesses or disabilities is custodial care, and Medicare does not pay for custodial care. Rather, Medicare is meant to take care of what are known as acute-care needs. For Medicare to cover a

nursing-home stay, you must first spend three full days in an acute-care hospital and require skilled care or rehabilitation therapy at least five days a week. And even then, Medicare will cover you completely only for the first 20 days of your nursing-home stay. (After that, it may pay a portion of your care for the next 80 days, provided your health is actually improving as a result.)

And even if you turn out to be one of the lucky ones who meets the current qualification requirements, there's no guarantee that Medicare will still be around in 20 years. Many experts think that the government will not be able to continue the funding of Medicare in its current form for very much longer because there will be so many more elderly people who need it. What about Medicaid? Well, Medicaid is, in essence, welfare, and to qualify for it you must be virtually destitute. That's *not* how a Smart Couple wants to end up.

LONG-TERM CARE (LTC)

As valuable as it can be, LTC coverage isn't necessarily something you need to buy right away (especially if you are under the age of 50). Most people start thinking about LTC coverage in their fifties and purchase it in their sixties. If you wait until your seventies or eighties, it can become prohibitively expensive. Unless you're in terrible shape, you can still get a pretty good deal in your mid-sixties.

When you're looking for LTC coverage, the first thing you need to understand is what it will not do. Long-term care insurance will not pay for acute care that you get in a hospital (say, in the immediate aftermath of a heart attack or a broken hip). This is typically the province of health insurance and Medicare. What LTC insurance will cover is the kind of care you get in a nursing home, a residential-care facility, a convalescent facility, an extended facility, a community hospice or adult-care center, or

in some cases, care in your own home.

The type of LTC coverage you can buy varies from state to state. All things being equal, when you check out what's available in your state, I recommend that you consider a comprehensive policy. The reason is that right now both of you are probably healthy and as a result can't really predict what type of coverage the two of you will need in the future. A comprehensive policy will typically give you the most options. It will cost more, but should one or both of you eventually need the care, I'm confident it will more than justify the extra expense.

HOW TO KEEP YOUR LTC PREMIUMS DOWN

The cost of LTC coverage depends on a number of variables. These include your age, the level of care you want, the amount of coverage ($100 a day, $200 a day, and so on), the length of waiting time before your policy kicks in, your state of health and age, and how long you want your policy to last should you need to use it.

Not counting short stays of less than three months, statistics show that most people spend an average of about three years in a nursing-care facility. For most people, lifetime benefits are now becoming cost prohibitive and most companies are now not offering them. I recommend looking for a five-year benefit with a six-month waiting period up front. What this means is that your policy will take longer to go into effect. Most LTC policies start paying off within 90 days after you enter a nursing facility or put in a claim for home care. By stretching that out a bit, you can bring down your premium costs quite nicely.

Delaying the start of coverage may sound scary, but it's actually quite sensible, since you will probably be able to afford the first few months on your own. It's later on that you will need the most help. By taking a higher

deductible and getting lifetime coverage you are covering the worst-case possibility, which is why you are buying this type of coverage in the first place. (By the way, the cost of this type of insurance can be tax-deductible, so check with your accountant if you decide to purchase it.)

QUESTIONS TO ASK BEFORE YOU SIGN UP

1. **What exactly does the policy cover?**

Remember, there are several different types of coverage available and they vary from state to state. Make sure you know exactly what type of coverage you are being shown before you sign up.

2. **How much will the policy pay out in daily benefits? Will it be adjusted for inflation? At what point do my benefits kick in and how long will they last?**

As I noted, you can keep your premiums down by requesting a higher deductible. Also, it's probably worth paying a little more in order to get yourselves lifetime coverage.

3. **Does the policy contain a premium waiver or will I still have to pay the premiums after I start receiving benefits?**

With this waiver, you won't have to worry about continuing to pay premiums while you are in the nursing-care facility.

4. **Is there a grace period for late payments?**

Make sure there is. You would hate to find yourself in a situation where you accidentally missed a payment and then discovered that you'd lost your coverage.

5. Are there any diseases or injuries that are not covered?

The answer should be no.

BE CAREFUL WHOM YOU BUY FROM

Because LTC insurance is still a relatively new insurance product, I recommend that you avoid purchasing an LTC policy from any company that hasn't been in the business for at least 10 years. Many companies that have entered this space since this book was originally written have gotten out of it, or they have been downgraded by the ratings agencies. There are five major services that rate insurance companies (A. M. Best, Standard & Poor's, Moody's, Duff & Phelps, and Weiss), and you shouldn't buy a policy from any company that hasn't earned a top grade from at least three of them. You can find out what sort of ratings a company has received by asking it; if the company says it doesn't know or doesn't want to tell you, that's a good sign you should take your business elsewhere. Before you buy any LTC policy use Google to search and review the insurance rating. Also use Google to check for "complaints" about the company. I recommend purchasing LTC insurance through a professional independent insurance agent—let them do the work of explaining these policies and shopping for the best one for you. If you don't have an agent, here are some websites to use as starting points: www.LTCtree.com, www.Prepsmart.com, and www.AALTCI.org.

Here's how to contact directly some of the biggest providers of LTC insurance with currently top insurance ratings. This list is not exhaustive.

New York Life

(800) CALL–NYL

www.newyorklife.com

Northwestern Mutual Life

(800) 950-4644

www.northwesternmutual.com

Mass Mutual

(800) 966-4093

www.massmutual.com

Mutual of Omaha Insurance Company

(800) 205–8193

www.mutualofomaha.com

In addition, make sure you find out what happens to your policy in the event the company is sold or goes out of business. Ideally, you want a guarantee that if your policy were to be transferred without your permission, the original terms on which you bought it would remain in effect.

You have now completed your security basket. In the process, you have done an amazing amount—far more than 95 percent of the population ever does—to safeguard the rich future together that the two of you deserve. Now it's time to turn from the security side of life to the fun part—building your dream basket.

---

[*] In 2017, it's $5.45 million per person.

BUILD YOUR DREAM BASKET

I'm at the age now where everyone I know is having kids. When we visit our friends, their houses are filled with toys and children "playing." It's often hard to figure out exactly what the kids are doing—except that they're having the time of their life. They're not worried about bills, work, mortgage payments, or interest rates. They just want to have fun, play all day, and enjoy themselves. Their biggest concern is wanting to know when lunch is going to be. Most of all, they like to dream. For a kid, there's almost no difference between dreams and reality.

What makes kids' lives so special (and makes us so often wish that we were kids again ourselves) is that they dream all the time, and they dream big. Kids don't need to go to motivational seminars to be told they need to dream about what they want to do with their lives. Ask a bunch of kids what they want to do when they grow up, and they won't hold back. They'll tell you the most amazing things. When I was a kid, I told everyone I wanted to be race-car driver. That's what makes life so much fun for kids: they imagine being and doing anything and everything.

To my mind, one of the saddest things about getting older is that it becomes so easy to stop dreaming. It becomes so easy to stop "acting like a kid" and start being realistic. It becomes so easy to accept your life the way

it is, to feel that what you have now and what you are doing today is as much as you can or should expect from the world.

Now, I'm not suggesting that you shouldn't be grateful for what you have and how far you've progressed in your life. Quite the contrary—I believe it's critically important to be grateful for what the world has given you. What I'm suggesting is that deep in your hearts you and your partner have dreams that are going unfulfilled. There are things the two of you want to do and be that you have put in a "closet" somewhere and forgotten about. Or even worse, you haven't forgotten about these dreams —you've just given up on ever attaining them.

The number-one reason people let their dreams go unfulfilled—the reason they leave them in the closet of life, collecting dust—is money. That's the truth, plain and simple. People stop dreaming because they don't have the money it takes to transform their dreams into reality. In this chapter, I'm going to show you and your partner how to change that.

IT'S TIME TO DREAM AGAIN

Let's face it—just about everyone wants to have fun and be rich. The national pastime in this country is not baseball or football—it's playing the lottery. Millions of people buy lottery tickets every week, regularly spending a dollar or two (or five) in the hope of winning a jackpot. Why? Because, deep down, they believe that if their number comes up, they can be a kid again and start living their dreams.

Of course, the chances of this happening are so absurdly small that it's mind-boggling. You literally have a better chance of being hit by lightning than of winning the Powerball sweepstakes or whatever it's called in your state. But that doesn't matter. The reason so many of us play the lottery, watch those "millionaire" game shows on TV, or go to work for start-ups that pay in stock options instead of cash is because we all want to be able

to dream big.

Dreaming big is the key to happiness. Dreaming big is energizing. Dreaming big is fun. Can you remember a time in your life when you used to dream big? When you had things you wanted to accomplish and you weren't afraid to talk about them? Do you remember what it felt like to not have to be so "responsible"? A time when you weren't consumed with income, career, family and bills, and reality? When you were less boring?

Be honest. Many adults become boring as they get older. It's easy to get boring. We get into ruts and we stop "playing." Well, for the next few minutes, I want you to just "play along." Don't be realistic. Don't act like an adult. Pretend you're a child again and that you can do anything, be anyone, have fun. What would you do? Who would you become? What would you and your partner do together?

LEARNING HOW TO GO FOR IT

In Step Three, I talked about goal-setting. That's not what this step is about. We're not concerned here with how to earn more money, lose weight, or get organized. What we're concerned with here is how to really go for it. What do the two of you want to do that is totally fun, totally crazy, totally outrageous? Do you want to travel around the world? Go wine tasting in Tuscany? Swim with the dolphins in Hawaii? Build your dream home with that dream kitchen? Or maybe it's a dream "cave" with a 50-inch television, a built-in bar, and a pool table?

I don't know what your dream is. But what I do know is that, as a couple, you deserve to dream together—and the time to start dreaming is now!

UNDERSTANDING WHAT IT TAKES

One of the greatest things I've learned in my life is that almost anything is possible if you just plan for it. As I explained earlier, the key to achieving your goals is to make them specific and measurable. You put them in writing and then you chart your progress toward them. This is as true for dreams as for anything else.

The fact is, some dreams don't even require money; they just take some planning. But most do take money, and with that in mind, we're going to learn how to create a dream basket that will enable the two of you to pay for your dreams.

Here's how I want you to start. Assuming that you and your partner are not literally reading this book at the same time, I want whichever one of you is reading it now to write up your own list of dreams first. Use the Dream Worksheet on the next page to list your top five dreams. Then get your partner to do the same thing.

Once you've each finished your individual lists, get together and make a "we dream" list. The "we dream" list is what you should focus on. Nothing will solidify a marriage or a partnership faster than having a "dream plan" that you work on together, as a team. To make sure this really happens, I suggest that the two of you set aside a specific amount of time to do this. Literally make an appointment with yourselves this week to spend at least half an hour writing out your top five dreams, first individually, then as a couple.

This is important. You can't just walk up to your partner at the end of the day, while you're getting dinner ready or putting the kids to sleep, and say, "What dreams do you have? Let's write them down." Your dreams are too important to treat so casually. Take them seriously. Make an appointment on your calendar to do this…and do it this week!

DREAM WORKSHEET

Designing and Implementing the Fun Factor!

The difference between this Dream Worksheet and the Purpose-Focused Financial Plan is that the Dream Worksheet is meant for you to focus on the "fun" stuff in life. In this exercise, write down the top five things that you want to do with your life that sound like "fun"—things you might not consider realistic but you would really like to do.

To do this, simply follow the six steps below and fill in the worksheet on the following page.

1. List your top five dreams. Remember…have fun with this. Be "kid-like," not adult-minded.
2. Make these dreams as specific and measurable as possible.
3. What action can you take in the next 48 hours to get the ball rolling? Remember…"I don't know" is not an answer.
4. Who are you going to share your dream with? No matter how crazy it may sound now, the sooner you share it with someone you love and respect the sooner that dream is going to feel real.
5. What value will this dream help you realize?
6. What will the dream cost? Even if you don't know the exact cost, make sure you write down an estimate.

DREAMS
Designing and Implementing the Fun Factor ™

	TOP 5 DREAMS	SPECIFIC, MEASURABLE, PROVABLE	48-HOUR PLAN	WHO WILL YOU SHARE YOUR DREAMS WITH?	WHAT VALUE DOES IT HELP YOU ACCOMPLISH?	WHAT WILL THE DREAM COST?
	Example: trip to Maui	go to Maui December 2018 for 7 days	call travel agent; get Maui brochures	husband Bill and kids	fun/family/health	$3,500
1.						
2.						
3.						
4.						
5.						

DON'T FALL INTO THE "I DON'T HAVE A DREAM" TRAP

I am constantly amazed at the way some people try to avoid improving their lives. For instance, I've actually had people (dozens of them over the years) ask me, "What if I don't have a dream?"

I'm sorry, but the only way you don't have a dream is if you're dead. Dead people don't dream. The rest of us have dreams. It's just that in many cases we've let our "dream muscle" atrophy because we haven't used it in so long.

If this is what's happened to you, build up your dream muscle the same way you'd work on any other muscle that's gotten out of shape. That is, don't start by trying to lift the heaviest weight in the gym. Start with a relatively small dream…like planning a romantic weekend getaway for the two of you—somewhere that's within driving distance and not too

expensive. It doesn't have to be anything mind-blowing. The point here is simply that you and your partner are going to write down on a piece of paper a dream that the two of you want to make real, and then you are going to fund it. That's all there is to this dream-basket process.

By the way, even if you're not completely convinced you know what your dream is, start funding it anyway. The reason: sooner or later, you *will* know what it is, and when you do, you'll be glad you've already gotten a head start on putting aside the money you'll need to make it real.

FILLING YOUR DREAM BASKET...THE IMPORTANCE OF "SYSTEMATIC INVESTING"

Now that you've put your dreams in writing, you have answered what I call the "why invest?" question. Many people don't bother to change their spending habits or start saving simply because their future doesn't seem compelling enough to motivate them. But nothing creates leverage and motivation like a dream.

So now you know what your dreams are. Hopefully, the prospect of making them real has the two of you excited. The question now is, how are you going to pay for them? The answer is simple. You need to create a systematic investment plan devoted solely to funding your dreams.

I call this process filling your dream basket. Here's all there is to it. Just as you secured your future by deciding to pay yourself first a fixed percentage of your income for your retirement basket, now you're going to fund your dreams by committing to pay yourself an additional fixed percentage of your income that will go into your dream basket.

The key to making this work is to fund your dream basket on a regular basis. This is what is known in the investment industry as "systematic investing." With a systematic investment plan, you commit to putting a

certain dollar amount into a specific investment on a monthly or weekly—or sometimes even daily—basis. These days, as a result of advances in technology, many mutual funds will allow you to make systematic investments of as little as $5 a month. I know it's hard to believe, but it's true. Micro-investing along with *automatic investing* is changing the game of saving for millions of people, which is great news.

Once you've set up a systematic investment plan, the brokerage firm or mutual-fund company will automatically deduct a predetermined amount of money from your checking or savings account on a predetermined date. The automatic aspect of the plan is what makes it work. Don't kid yourself into believing that you're going to be disciplined enough to sit down every two weeks and manually write a check and then mail it in. I've been helping people manage their money for years now, and I can tell you firsthand that even the most disciplined investors rarely stick to a systematic investment plan that isn't done automatically.

I've never been more excited about the concept of funding a dream basket than I am now because it has never been easier. Not only are most mutual funds now available to practically all investors through systematic investing, but the Internet has made the process of investing with small amounts of money unbelievably convenient. As you'll see, the great thing about funding a dream basket in this way is that as your investments increase in value, your dream will start to feel more real and more possible, and you'll find yourself becoming more excited and more motivated than ever.

HOW MUCH IS ENOUGH?

The amount that you contribute to your dream basket is totally up to you. I suggest that you start by kicking in at least 3 percent of your after-tax income. That is, before you pay bills, sweep at least 3 percent of your take-

home pay into your dream basket. Why 3 percent? Because most people—even those whom I call "dream challenged" (the ones who are going to fight this whole concept because they are afraid to dream)—will have a hard time arguing that they can't save an additional 3 percent of their income.

If you do this automatically before you pay the bills, you'll be amazed how quickly it becomes part of your routine—and how quickly the money starts to add up. If your partner happens to be a particularly dream-challenged individual, start by putting just 1 percent of your income into your dream basket, but make it a goal to increase the amount by another 1 percent within six months. Do this every six months, and at the end of two years you will be saving 4 percent of your income for your dreams—and you'll barely notice it!

HOW EXACTLY SHOULD I INVEST MY DREAM-BASKET MONEY?

There are literally thousands of ways to invest. You can buy individual stocks and bonds. You can buy certificates of deposit. You can purchase commodities or preferred stocks. You can buy convertible bonds. You can acquire gold or silver, or art or stamps. You can buy shares in unit trusts. The list goes on and on.

Because there are so many investment choices, people often don't know what to do. As a result, they do nothing. When it comes to funding your dream basket, I don't want you to be so overwhelmed that you find yourself unable—or unwilling—to take immediate action. Nor do I want you to be held back by the amount of money you may be required to put up. So with these factors in mind, I'm going to suggest that you fund your dream basket by investing in mutual funds or exchange-traded mutual funds, which I will cover in greater detail in a few pages.

WHAT EXACTLY IS A MUTUAL FUND?

One of the more interesting and scary discoveries I've made over the years is that there are a lot of people who invest in mutual funds without even knowing what they are. You wouldn't believe some of the answers I've gotten when I have asked people at my classes and seminars what they think a mutual fund is. People say things like "It's a big stock," "It's a safe investment," "It's a special stock," "It's a bank product used to help people buy stocks," "It's a holding tank where you put stocks," and on and on.

Well, for the record, here's the real definition of what a mutual fund is, according to Charles Schwab. In *Charles Schwab's Guide to Financial Independence,* he defines a mutual fund as an investment company that pools the money of many investors and buys various securities (such as stocks or bonds). Investors who own shares of the mutual fund thus automatically achieve the benefit of a diversified portfolio without having to buy individual investments themselves.

WHY INVESTING IN MUTUAL FUNDS MAKES SENSE

In my opinion, there are six key reasons why you should invest your dream-basket money in mutual funds.

1. **They are easy to invest in.** As I said before, many mutual funds today allow you to start a systematic investment program with as little as $50 a month (sometimes less). You can set this up, often at no cost, through a financial advisor or with the mutual-fund company directly.
2. **They offer instant diversification.** Even though you may be putting in as little as $50 a month, you immediately enjoy a stake in a portfolio

that could include hundreds of stocks and bonds.

3. **They offer professional money management.** The people who run mutual funds are full-time professionals who bring incredible expertise and experience to the job. This includes professional research and trading execution.
4. **They are cost-efficient.** According to the Morningstar rating service, the average internal mutual-fund management fee is about .57 percent of the assets managed. This is down significantly since this book was originally written. In fact, it has never been less expensive to own a mutual fund than today. You would probably wind up paying a lot more than this if you tried on your own to build and manage a portfolio of individual stocks and bonds.
5. **They are liquid and easy to monitor.** Most mutual funds are priced daily, and they are posted in the newspaper right next to the stock tables and can be tracked online instantly. Thus, you can easily find out how your investment is doing—every day, if you want to. And most mutual funds allow you to pull your money out with less than five days' notice.
6. **They are boring.** Because they are so diversified, mutual funds don't fluctuate in price as much as individual stocks or bonds. Many people consider this lack of volatility boring. As far as I'm concerned, in the investment world, boring is good.

Now that you understand why mutual funds are a good investment, it's time to consider which type makes the most sense for you. According to Statista.com, there are approximately 9,500 mutual funds to choose from (not including exchange-traded mutual funds). To make things simple, I'm going to suggest exactly what type of mutual-fund investment I personally would use to fund my dream basket. The only real variable is the time horizon—that is, how long you think it will take the two of you to accumulate all the money you'll need to fund your particular dream.

FOR SHORT-TERM DREAMS (LESS THAN TWO YEARS)

It doesn't get simpler than this. If you're saving for a short-term dream, such as going on a vacation or redoing the kitchen—anything you can achieve in two years or less—you need to invest conservatively and keep your money liquid (meaning easily accessible).

In my opinion, there is only one sensible investment that meets these criteria: your money should go into a money-market account. I discussed money-market checking accounts in Step Six as the smart alternative to regular bank checking accounts. In this case, you don't necessarily need the checking feature because you're not going to be using this money until you're ready to realize your dream. So what we call a "plain vanilla" money-market account—that is, one without any frills or features—may be all you need.

A money-market account is a mutual fund that typically invests in very liquid, very safe, very short-term government securities. As I noted earlier, money-market accounts can be opened at most brokerage firms with relatively small initial deposits. Indeed, in many cases, if you set up an automatic investment plan, you can fund them with as little as $50 a month.

These accounts are not only incredibly safe (to my knowledge, there has never been a money-market default), they are also quite stable. In recent years, they've generally offered an average annual interest rate around 1 percent (in the original version of this book they were 4 to 7 percent; as interest rates go up, these rates may someday return but don't hold your breath).

In many cases, you can find money-market accounts that pay as much or more than a one- or two-year certificate of deposit. What's more, money-market accounts are liquid, which means you can pull your funds out at any time without ever having to pay a penalty fee. With rates as low as they are today, money markets are simply a safe place to put your money

for the short-term dream.

If you don't yet have a financial advisor, opening a money-market account can be a great way to begin a relationship with one. Get a referral from a friend or visit the local branch of a major brokerage company and ask to meet with an advisor. Explain that you're looking to open a money-market account and that you would like to set up a systematic investment plan to fund it. By the way, there are no commissions on money-market accounts, so you don't need to worry about the cost of setting one up. There isn't any.

FOR MID-TERM DREAMS (TWO TO FOUR YEARS)

In this time frame, things are a little trickier. If you happen to be ultraconservative and don't want to risk your dream money, I'd recommend going with a short-term bond fund. However, if you're looking for more of a return—and can handle a little more risk—you should consider what's known as a balanced fund.

Short-term bond funds invest in really short-term government bonds, typically Treasury bills with maturities ranging from six months to four years. These types of bond fund are very safe and relatively stable (meaning the price won't fluctuate much).

Balanced funds are mutual funds that invest in both stocks and bonds. A typical balanced fund will have about 60 to 70 percent of its assets in stocks and the remainder in bonds (usually Treasuries). Because it's so well diversified, this type of fund is less risky than a pure stock fund. And while it normally won't outperform the stock market, it should come close to matching it. Typically, a balanced fund will generate about 75 percent of the returns you would get from a similar-sized investment in the stock market. Indeed, over the last decade, balanced funds have generated annualized returns of about 8 percent over the past 20 years. These are not guaranteed returns; the returns are based on the market's returns, and past performance does not guarantee future performance.

Comparing balanced funds to straight stock funds is like comparing the tortoise to the hare. Balanced funds are slow and steady, but they will get you to where you want to go. These are by far my favorite "starter" investment. These are also good for long-term investment dreams.

FOR LONG-TERM DREAMS (FOUR TO TEN YEARS)

Once you get to dreams that are going to take you more than four years to save for, you should really consider putting your dream-basket money into growth-oriented investments. Because you've got more time, you can afford to take more risk to get a bigger return. To my mind, that means investing in stock-based mutual funds.

WHERE DO WE START?

As far as I'm concerned, the first place you should put your long-term dream-basket money is in an index fund. Index funds are simple, inexpensive, easy to set up, and they work. What more could you ask?

Index funds are stock mutual funds that mimic a specific index. In recent years, the most popular of these have been S&P 500 index funds. These funds invest in the 500 stocks that make up the Standard & Poor's index. Next to the Dow Jones Industrial Average (which consists of 30 or so "blue chip" stocks), the S&P 500 is one of the most commonly quoted stock-market indicators. That's because the performance of the S&P 500 pretty much matches the performance of the overall market.

The main reason index investing has become so popular is that it costs less than investing in other kinds of funds. The cost of an average index fund may be 80 percent less than that of an actively managed fund. What's more, index funds offer real tax advantages. Because index fund managers move in or out of particular stocks only when those stocks are added to or dropped from the index they're mimicking (something that happens

relatively infrequently), there is barely any trading that results in taxable capital gains. In addition, while index funds may have lagged behind some actively managed funds in the go-go years of the late 1990s, historically they have tended to do better than most other funds. (Over the last 20 years or so, index funds have outperformed roughly 75 percent of the actively managed funds.)

If you want even broader exposure to the stock market than an S&P 500 index fund, you might consider a Wilshire 5000 Index Fund. As the number suggests, the Wilshire 5000 tracks the performance of 5,000 separate stocks, and as a result represents one of the most diversified market gauges you can find.

Here is a list of some popular index funds. Remember, they all represent investments in the stock market—meaning there is risk involved. So read their prospectuses before you invest any money.

S&P 500 Index Funds

Vanguard Index 500 (symbol: VFINX)

(800) 992–8327

www.vanguard.com

Minimum investment required for a regular account: $3,000/For IRA: $3,000

Systematic Investment Plan: No minimum required.

Schwab S&P 500 Fund (symbol: SWPPX)

(866) 855–9102

www.schwab.com

Minimum investment required for a regular account: $1/For IRA: $1

Systematic Investment Plan: $100 minimum for additional investments

Fidelity Spartan 500 Index (symbol: FUSEX)

(800) 343–3548

www.fidelity.com

Minimum investment required for a regular account: $2,500/For IRA: $2,500

Systematic Investment Plan: Must first meet minimum investment/$10 minimum for additional investments

Wilshire 5000 Index Funds

Vanguard Total Stock Market (symbol: VTSMX)

(800) 992–8327

www.vanguard.com

Minimum investment required for a regular account: $3,000/For IRA: $3,000

Systematic Investment Plan: No minimum required.

Schwab Total Stock Market Index Fund (symbol: SWTSX)

(800) 225–8570

www.schwab.com

Minimum investment required for a regular account: $1

Systematic Investment Plan: Must first meet minimum investment/$100 minimum for additional investments

EXCHANGE-TRADED FUNDS (ETFS)

In the last decade and a half, a new class of index funds has become increasingly popular. Since I wrote this book in 2000, exchange-traded funds have exploded and changed the investment landscape. There are more than 4,779 ETFs now, and the number is growing, according to Statistica.com. There is nearly $4 trillion in ETFs globally, according to research firm ETFGI. ETFs are basically mutual funds that trade like

stocks, meaning you can buy and sell them during market hours just as you can buy and sell common stock. What makes these funds so exciting to investors is that they are incredibly liquid, incredibly tax efficient, and extremely low cost. The average ETF has an expense ratio of about 0.20 percent, and sometimes less. And most of these funds sell for less than $100 a share. How's that for ease of investing and diversification with very little money?

Some of the most popular ETFs are the S&P 500 Index Depositary Receipts (known as Spiders, because their trading symbol is SPY), iShares Core S&P 500 (trading symbol IVV), Vanguard Total Stock Market ETF (trading symbol VTI), the Dow Jones Industrial Average Model Depositary Shares (or Diamonds; trading symbol: DIA), the NASDAQ 100 Trust (known as Cubes, after its QQQ symbol), and the S&P MidCap 400 Depositary Receipts (symbol MDY).

ETFs can be purchased through virtually any brokerage firm or online trading company. For more details on this exciting new investment vehicle, go to www.ishares.com or visit www.etf.com.

MOVING BEYOND THE "GETTING STARTED" PHASE

Balanced funds and index funds are great places to start, but once your dream basket reaches a really large size—say, when it contains $25,000 or more—it's time for the two of you to consider building a diversified portfolio of mutual funds.

BUILD YOUR PORTFOLIO AROUND "CORE" FUNDS

I'm a huge believer in building a portfolio that consists of what I call "core-type" mutual funds. I'm also of the philosophy that the key to successful investing is to keep the process relatively simple and

straightforward. With this in mind, here are the six types of funds I believe you should consider when building a mutual-fund portfolio. They are listed in the order of what I consider most conservative to most aggressive.

Target Date Funds If you use a target dated mutual or an asset allocation fund then you don't need the funds I am listing next (because they will more than likely already be included in the fund). I covered the target dated mutual fund concept early in Step 5 on this page. Go back to that page for the details again. Target dated mutual funds do all the work of selecting the funds and do the asset allocation for you. They are much like a balanced fund but more advanced. As a result, you could easily decide to use a target dated fund for your dreams. For example, if it's 2018 when you read this and your dream is going to take five years to fund, then you could pick a fund coming due in five years (2023) close to that date. Target dated funds are not just for retirement.

Large-Capitalization Value Funds A large-cap value fund invests in companies with large market capitalizations—that is, companies whose outstanding stock has a total market value of $10 billion or more. Companies of this magnitude tend to be more secure and established than most, and, as a rule, they pay quarterly dividends to shareholders. The "value" part of the name reflects the basic strategy these kinds of funds pursue. Generally speaking, the manager of a value fund looks for high-yielding large-cap stocks that sell at low price-earnings multiples. (That's a fancy way of saying that these funds like to invest in solid companies whose stock is selling at bargain prices.) By investing in these types of stocks, you can often get consistent returns with relatively lower volatility. I'm a big fan of value investing. With that said, you need to diversify and not just go with one fund style or market cap weight.

Large-Capitalization Growth Funds These types of funds invest in what are commonly referred to as "growth stocks." Large-cap funds typically look for stocks with a market value greater than $10 billion. Typically, growth stocks do not pay dividends because growth companies prefer to

invest their profits in research, development, and expansion. Some great examples of large-cap growth companies are Apple, Microsoft, Facebook, Google, Oracle, Intel, and Amazon.com. These companies are huge, but they are not yet focusing on paying dividends because they are focused on powering their earnings into areas that they believe will grow the value of the company.

Medium-Capitalization Funds Otherwise known as "mid-caps," these funds invest in medium-sized companies—that is, those with a market capitalization of $2 billion to $10 billion, such as Domino's Pizza, ResMed, and Packaging Corporation of America. The potential for great returns here is high, but so is the risk. As a result, even though you find a lot of volatility in this sector, I think most portfolios benefit from containing some exposure to mid-cap stocks.

Small-Capitalization Funds It's getting harder to classify these funds because some small new company can go public these days with no earnings and overnight see its market capitalization suddenly spike to $1 billion or more. Typically, small-cap funds invest in companies with market caps that range from about $250 million to $3 billion. This reflects an ultra-aggressive approach, which can potentially produce great returns. Small-cap investing is a lot like betting on the hare instead of the tortoise. The younger you are—which is to say, the more time you have to recover from a potential downturn in the stock market—the more you can afford to invest in this way. Because of its aggressiveness, I don't recommend putting more than 20 percent of your assets into this type of a fund.

International or Global Funds As the name implies, these funds invest in stocks from foreign countries. While an international stock fund invests solely in foreign stocks, a global fund will usually have only about 60 percent of its assets invested abroad; the remaining 40 percent will be in domestic stocks. Remember, as big as it is, the United States represents only about a third of the total world economy, and if you invest only in domestic stocks, you're missing out on a lot of opportunities. I usually

recommend that investors keep about 10 to 20 percent of their portfolio in international or global mutual funds. If the European economy really starts to take off, you might want to increase this percentage, but for now I wouldn't put more than 20 percent of your assets into this type of fund.

AVERAGE INVESTMENT PERFORMANCE

For the Period: 10/1/89–12/31/16

Portfolio/Investment	Strategy	Average Annual Return
DJ Industrial Average w/Dividends		10.27%
S&P 500 Index w/Dividends		9.38%
Morningstar Large Blend Funds	U.S. Large-Cap Core	7.95%
Morningstar Mid-Cap Blend Funds	U.S. Mid-Cap Core	9.78%
Morningstar Small Blend Funds	U.S. Small-Cap Core	10.07%
Morningstar Foreign Large Blend	International (Developed) Equities	4.67%
Morningstar Diversified Emerging Mkts.	Emerging Market Equities	6.56%
Morningstar World Large Stock	Global Equities	6.66%
Morningstar World Allocation	Global Stock/Bond Allocation	6.98%
Morningstar Intermediate-Term Bond	Intermediate-Term U.S. Bonds	5.58%
Morningstar Intermediate Government	Intermediate-Term U.S. Govt. Bonds	5.12%
Morningstar Corporate Bond	Investment-Grade U.S. Bonds	6.63%
Morningstar High-Yield Bond	High-Yield U.S. Bonds	6.89%
Morningstar Muni National Intermediate	Intermediate-Term U.S. Municipal Bonds	4.69%
Morningstar World Bond	Global Bonds	5.56%
Morningstar Money Market—Taxable	Money Markets	2.77%

Created by Sterling Capital

Source: Morningstar

The DJ Industrial Average and S&P 500 Index represent returns of passive indexes, while the "Morningstar" portfolios represent the average return of investment managers in the respective strategy.

WHO SAYS YOU CAN'T EARN 10 PERCENT ANYMORE?

One of the most common things I hear is that it's impossible to earn 10 percent in the stock market now. Really? Says who? I intentionally gave you the first chart to show you a long-term perspective of the market returns. Now let's look at the last eight years. You could have basically thrown a dart into the market and picked nearly any stock-based index fund and had double-digit returns. This is why when I wrote *Start Over, Finish Rich* my mantra was "Recessions make millionaires." Recessions always create the next generation of millionaires if you invest and buy things that are "on sale." As I write this, the market is up nearly 300 percent from the low in 2009. I have no idea when you will read this. The market could be going through a correction or continuing its bull market run up. What I know is this, the next time the market has a significant correction, don't believe people who tell you, "This time it's not going to recover—this time is different." **The markets have always recovered.** A correction is not fun to go through, but if you don't panic, you can live through it and thrive.

AVERAGE INVESTMENT PERFORMANCE

For the Period: 3/9/09–9/30/17

Portfolio/Investment	Strategy	Average Annual Return
DJ Industrial Average w/Dividends		18.32%
S&P 500 Index w/Dividends		18.95%
Morningstar Large Blend Funds	U.S. Large-Cap Core	16.90%
Morningstar Mid-Cap Blend Funds	U.S. Mid-Cap Core	18.15%
Morningstar Small Blend Funds	U.S. Small-Cap Core	19.13%
Morningstar Foreign Large Blend	International (Developed) Equities	11.84%
Morningstar Diversified Emerging Mkts.	Emerging Market Equities	11.82%
Morningstar World Large Stock	Global Equities	14.63%
Morningstar World Allocation	Global Stock/Bond Allocation	9.13%
Morningstar Intermediate-Term Bond	Intermediate-Term U.S. Bonds	5.28%
Morningstar Intermediate Government	Intermediate-Term U.S. Govt. Bonds	2.87%
Morningstar Corporate Bond	Investment-Grade U.S. Bonds	7.84%
Morningstar High-Yield Bond	High-Yield U.S. Bonds	11.15%
Morningstar Muni National Intermediate	Intermediate-Term U.S. Municipal Bonds	4.04%
Morningstar World Bond	Global Bonds	4.77%
Morningstar Money Market—Taxable	Money Markets	0.07%

Created by Sterling Capital

Source: Morningstar

The DJ Industrial Average and S&P 500 Index represent returns of passive indexes, while the "Morningstar" portfolios represent the average return of investment managers in the respective strategy.

WITH 9,500 FUNDS TO CHOOSE FROM, HOW DO WE KNOW WHICH ONE IS RIGHT FOR US?

Let's face it, even mutual-fund investing has become pretty complicated in recent years. There are so many different funds, (9,500 at last count, down from 13,000 when I first wrote this book). And now, as previously discussed, there are nearly 5,000 ETFs. So many ads screaming about performance. So many books, magazines, websites, television shows—all of them with their own suggestions on how to pick a mutual fund. It's enough to get a Smart Couple confused to the point of not taking action.

The good news is that a competent financial advisor can help you build a diversified portfolio on a fee basis. I cover how to hire a financial advisor in Step Eight, the next chapter (so keep reading). A good one will discuss your goals and risk tolerance with you and then build a professionally managed portfolio of funds, oversee it, and rebalance it as necessary. Many financial advisors use both actively managed mutual funds and ETFs, and many of them today will do this for you with accounts that start at $25,000 (sometimes less). Additionally, virtually every single major financial service firm now offers a managed portfolio option. It may seem complicated, but you've already learned more by reading this book than most people will ever learn about investing. You can do this. And you don't need to do it alone.

FOR REALLY LONG-TERM DREAMS (TEN YEARS OR MORE)

There are long-term dreams and then there are *really* long-term dreams. Say your dream is to build a second home in Hawaii, but you know it won't be possible until your kids are out of college, which is at least ten years away. Where should you put your dream-basket money in the meantime? The mutual fund options I discussed in the previous section work fantastically well for long-term dreams, and I could simply leave it at

that, but I want to provide you with all the major investment options, which is why we're now going to cover *annuities*. They may be right for you, and they may not. The fact is that annuities are a major part of the investment landscape, so let's learn about them. Over $220 billion was invested in annuities in 2016. There are lots of people who bash annuities, and usually that's because they are marketing a competitive product (for example, a managed stock account). Annuities can be used for dreams accounts and also for retirement investing. There are really two major types of annuities for long-term dream investing: *fixed indexed annuities* and *variable annuities*. Let's take a look and try to understand the basics of them.

WHAT IS AN ANNUITY?

Here's a broad definition of an annuity: It's a contract between you and an insurance company whereby you pay a premium (you invest) in exchange for a variety of guaranteed payout options for a set period of time or for the remainder of your life. There are really two phases of annuities: the first phase, when you save and the contract accumulates and grows. The second phase, when you start to take money out, is called the distribution phase. What is critical to understand about all annuities is that they are insurance contracts. Any guarantee given to you on behalf of an annuity is backed by the strength of the issuing insurance company. **Do not buy an annuity until you are clear on the quality of the insurance company.**

FIXED INDEXED ANNUITIES

Fixed indexed annuities, which are often referred to as "FIAs," are an insurance product that is tax-favored. In lay terms that means the money grows tax-free until you take it out (the technical term being "tax-

deferred"). Fixed indexed annuities are more popular now than variable annuities by a magnitude of five to one. Today they dominate the annuity industry. In 2016 more than $117 billion went into FIAs compared to $25 billion in variable annuities. "Why?" you might ask. The answer is pretty simple. Fixed indexed annuities offer principal protection, the promise of no downside (i.e., you can't lose money if the market goes down, and you participate in the market returns when it goes up). The catch to this is that you don't participate in all of the market upside. The way the product works is that your return is attached to a predetermined index (such as the S&P 500); you may earn only 50 percent of the upside with a cap in a given year. This all depends on the individual product you invest in, which means the devil is in the details. So how does this even work? Remember, this is an insurance product. The FIA will first offer a guaranteed rate. The rate will be low, but potentially higher than or the same as an actual CD. Let's say the rate is 3 percent. You will be guaranteed this rate of 3 percent annually. You can't earn less than this 3 percent. But then the product is also tied to a market index. So, for example, if the FIA is tied to the S&P 500 and it goes up 10 percent and your participation rate is 50 percent, you'll earn 5 percent (not the 10 percent of the full market return). And again, if the market goes down, you won't see a decline in your investment and you will still earn 3 percent. You can use an FIA to later provide you with a guaranteed income for life if you elect to annuitize it, depending on the individual policy riders.

"What?!" you might exclaim. "David, this sounds too good to be true!" Yes, I know it does. It's all about the details. Don't worry, we will cover them right after we discuss variable annuities.

VARIABLE ANNUITIES

Variable annuities are also insurance contracts. The insurance company

basically wraps an insurance policy around mutual funds (stocks, bonds, money-market funds, or a combination that you choose). These funds are called "subaccounts." The "insurance wrapper," as it is called, allows the money in the fund to grow tax-deferred, just like in a fixed indexed annuity. The big difference between a variable annuity and a fixed indexed annuity is that your returns are based on your subaccount selection and returns, and these accounts typically do not provide a fixed guarantee. They also do not provide the protection from a market downturn. What they do that fixed indexed annuities don't do is provide you with the full return on your investment. Put simply, if you invest in an S&P 500 index fund inside the variable annuity and it goes up 16 percent in a year, you earn all of that. You're not limiting your upside as you would be with an FIA.

THE UPSIDE AND DOWNSIDE OF ANNUITIES

The upside of annuities is that they are insurance products that can provide principal protection and tax deferral. And in some cases, depending on how you use the annuity, they can provide a guaranteed income stream for life and a long-term care benefit. It all truly depends on the annuity product. *Principal protection and tax deferral benefits that annuities provide, however, are not free. Nothing in life is free.* You know this by now. Let's start with one big issue with annuities (both fixed and variable). First, the money grows tax-deferred (that's really good), but the profits, when they are taken out of the annuity, are taxed as ordinary income as opposed to a long-term capital gain (that's not so good) because ordinary income can be taxed at a higher rate depending on your income and tax rate. *This is a very important point you need to consider before you invest.* Second, when you invest in an annuity you're locking up your money for the long term. You can't take the money out before you reach age 59½

without paying a government penalty fee of 10 percent (the same as with an IRA). Third, there are lots of fees involved in getting the benefits and guarantees of the insurance. **You must review the fees in detail before you invest**. Fourth, the insurance is only as good as the insurance company covering it (so you must check their ratings and strength). Finally, there can be a surrender fee—you must pay if you sell your annuity or take any distributions above a certain level from it within a set time frame of the purchase date. The average annuity has a surrender fee time frame that may range from 7 to 12 years, and these fees can be substantial—upward of 7 to 10 percent, which declines over time. So make sure, when buying an annuity, to ask the person presenting it to you about all "internal fees" and "back-end" surrender fees or sales charges. Many annuities are now offering level fee structures that eliminate these long-duration surrender charges, so ask your financial advisor or insurance professional about these level-fee annuities if the deferred sales charge concerns you.

So which type of annuity is right for you? It depends on you. Neither may be right for you. I can tell you that my annuity preference now is for the *fixed indexed annuity* over the *variable* annuity. I will happily take part of the upside of the index to protect myself on the downside of the markets. Just as I would choose *indexed universal life* insurance over *variable universal life insurance*, I would opt for an FIA vs. a VA today. The game of investing is always changing, with new products and new tax rules, which is why I wrote this update, and why you're reading it. You have to stay current on what is available. And by reading this update, you are.

Phew! We've covered a lot of ground in this chapter. Given all the recommendations I've made about how to invest your dream-basket funds, I'm sure your head must be spinning. But remember—it really isn't that complicated. You don't have to do this all at once. For the most part, smart investing is simply a matter of knowing what steps to take and in what order.

The fact is, being able to fund your dreams is a lot like opening a safe. Unless you know what numbers to turn to and how, you'll never get inside. With the right combination, however, the world's strongest safe can be opened with very little effort. The two of you now know the combination to your financial safe. Use the tools I have given you, in the right order, and your dreams can become a reality.

LEARN TO AVOID THE TEN BIGGEST FINANCIAL MISTAKES COUPLES MAKE

In this step, we're going to look at the 10 biggest mistakes couples make with their finances—and sometimes with their relationships. By learning what these mistakes are, you can save yourselves considerable heartache… and a lot of money. I'll warn you now that some of these mistakes will seem so obvious to you that you may find yourself saying, "Well, I knew *that* was dumb." But remember—knowing something is dumb and not doing it are two different things.

What I'd like the two of you to do with these 10 biggest mistakes is study them carefully and really discuss them with each other. If it turns out that you're making some of them yourselves, don't beat yourselves up over it. Rather, be happy you've learned something new that could conceivably save—or make—the two of you a fortune. In any case, the key is to take action. I don't want you just to nod in agreement and then do nothing. If

you spot a mistake you've been making, correct it. If you come across a solution to a problem that hadn't occurred to you, start using it.

With that in mind, let's jump right in.

MISTAKE NO. 1

Having a 30-year mortgage.

Thirty-year mortgages are probably the most popular form of home financing around. They are also, in my opinion, the single biggest financial mistake people make in this country. In fact, I think 30-year mortgages are worse than a mistake. I think they are a scam—an outrageous scam pushed nationwide by both the banks and the government.

What's my problem with 30-year mortgages? It's simple. Say you purchase a home with a $250,000 mortgage that you pay off over a 30-year period. Say the interest rate is 4.5 percent a year and your monthly mortgage payment is $1,266. When all is said and done, you actually will have given the bank nearly $456,000. That's almost *twice* the original loan amount. Why did you fork over all that extra money? The answer, of course, is that in addition to repaying the $250,000 principal, you were also obligated to pay the bank $206,000 in interest charges.

In all fairness, banks are in business to make money. They like to sell 30-year mortgages not because 30-year mortgages are necessarily a good deal for you but because they are very, very profitable for them.

Now, I also said that the government benefits when you buy a 30-year mortgage. How does that work? Well, to begin with, it was the government that had to decide to make mortgage interest tax-deductible, right? Do you think the government said, "Geez, let's make the lives of Americans easier by allowing them to deduct a good chunk of their mortgage payments"? Maybe…but, then again, maybe not.

Maybe the government's experts looked at the math and saw that encouraging people to take out 30-year mortgages would be a good thing

for the government. After all, if you and your partner have a mortgage that you pay off over 30 years, guess when the two of you will most likely retire? You'll retire when you reach your sixties—which just happens to be precisely when the government *wants* you to retire.

Why doesn't the government want you to retire earlier than that—say, in your late forties or early fifties? Because when we retire, most of us sharply reduce the amount of income and Social Security taxes we pay. So if everyone started retiring early, the government might have a tax-revenue crisis on its hands.

Now, don't get me wrong. I'm not antigovernment, nor am I suggesting that the banks and Washington are engaged in some sort of conspiracy. Their policy here makes good business sense for both of them. But here's the important thing: what's good for them is not always good for you or me.

TAKE YOUR 30-YEAR MORTGAGE AND... SAVE $40,000 OR MORE!

If you've already got a 30-year mortgage, what I suggest is that you…keep it. That's right. You can keep the 30-year mortgage you've got, and if you ever get a new mortgage, you should probably get one with a 30-year term as well. The fact is, 30-year mortgages give you a ton of flexibility.

By this point, I'm sure you're thinking that I've gone nuts or you accidentally skipped a page or two somewhere. Wasn't I just going on about how terrible 30-year mortgages are? And now I'm saying you should keep yours—and maybe even get a new one?

Well, here's the trick. By all means, take out a 30-year mortgage, but under no circumstances should you take the full 30 years to repay it. If you do, you'll just be wasting all that time and money on interest. A much smarter decision is to pay off your 30-year mortgage early.

To do this, pull out your mortgage payment book and review what your last payment was. Now take that number and add 10 percent to it. That's how much you're going to send the bank next month, and every month thereafter. In other words, if you were paying $1,000 a month before, from now on you're going to be paying $1,100 a month. Inform the bank that you are doing this and that you want the extra $100 a month to be applied to the principal (not the interest).

If you keep this up, you'll wind up paying off your 30-year mortgage in about 25 years. Increase your monthly payment by 20 percent, and you'll have that mortgage retired in about 22 years (depending on the type of mortgage)! In short, this is a simple idea that can easily save you tens—if not hundreds—of thousands of dollars in interest over the lifetime of your mortgage. In the example I went over on the $250,000 mortgage at 4.5 percent with a monthly mortgage payment of $1,266 a month, just adding $126 a month *EXTRA* toward the principal would pay that mortgage off **five years sooner, saving you $39,933! Make two extra payments of $126 and you would save $63,421!** *Reread that*. That's like two months of your Latte Factor! Right? **Two months of coffee at home a year, and you've paid your home off eight years faster and saved $63,421.** Now tell me this book wasn't worth the 15 bucks or less you spent on it!

If you're at all confused by this, call your bank or mortgage company and tell them you want to pay off your mortgage earlier than the schedule calls for. Ask them exactly how much extra a month you would have to send them in order to pay off your mortgage in 15, 20, and 25 years. Make sure to ask if there are any penalties for paying off your mortgage earlier (chances are, the answer is no). Then ask them to send this information to you in writing. Most likely, they'll be happy to help you, and in any case, it shouldn't take them very long to do the calculations.

I ran all these numbers on a nice noncluttered website that doesn't bug you with ads. It's **www.mortgagecalculators.info**. Go run your numbers.

3 MORE TRICKS TO PAY OFF YOUR MORTGAGE EARLY

1. **Set up a bi-weekly mortgage.** I love this approach and wrote about it in detail in *The Automatic Millionaire*. I also discussed it on *Oprah* and it blew people away (it still amazes me people don't know about this mortgage hack). The powerful idea is that rather than paying your mortgage once a month you split your mortgage payment in half and make two payments a month. So in the previous example, you have a $250,000 mortgage with a 4.5 percent interest rate and your monthly payment is $1,266.71. Instead of making the payment of $1,266.71 once a month, you pay $633.36 every two weeks. By **doing this you will pay your home off in 25 years and seven months and save $34,834.** It's not quite as good as the system I gave you before, BUT in the real world it works better. Why? Because most likely you are paid every two weeks, so it's much easier on your cash flow and family budget to pay your mortgage every two weeks. Secondly, with a bi-weekly mortgage it's all done for you—automatically! You don't need to write the checks, track it yourself, or even think about it.

   The only trick to this, however, is how to set it up. You can't just do this one yourself. You need to reach out to your bank and see if they offer a bi-weekly payment plan. Many banks now do. Some banks charge a small fee (which I think is still worth it).
2. **Make one extra payment a year.** I'm sure you have heard of this one. Almost no one does it. But if you do, do it and you have the extra payment applied to pay down the principal (make sure the bank does this correctly) then you will pay your mortgage off **four years sooner and save $32,151.**
3. **Switch your 30-year to a 15-year mortgage.** With interest rates still near record low levels, this one is also really worth considering. Take the $250,000 mortgage example. A 30-year mortgage at 4.5 percent

will have a monthly mortgage payment of $1,266. What if you switch it to a 15-year mortgage? Assuming the same rate of interest (it will actually be lower because with a 15-year loan you will get a discount, but let's leave it the same for this example). At 4.5 percent, your payment will now be $1,912. That's $646 more a month, which is a lot, I know. It's precisely $21 a day more. BUT you will now **pay off your home in 15 years and save $112,000!**

One thing to keep in mind: when you make these extra mortgage payments, **pay close attention to your monthly statements**. *Banks often don't credit mortgage accounts properly*. I've had it happen twice with my own mortgage. In one case, we had been making extra payments for eight months—without a penny of it ever being credited against our principal. When we finally noticed, the bank said it thought the extra payments were meant to cover future interest we might owe. Can you believe that? It took us three months to sort things out. The moral: even if you're not making extra payments, watch your mortgage statement like a hawk!

THE BIG TAX WRITE-OFF MYTH

I know some of you are probably thinking that I've ignored one of the most important aspects of paying off a mortgage—the fact that mortgage interest is tax-deductible.

You probably think 30-year mortgages are great write-offs because some accountant or financial advisor or well-meaning friend told you they were. And that's not totally crazy. On average, for every $100,000 in mortgage interest you pay, your tax bill will be reduced by $28,500 (28.5 percent being the federal tax bracket of the average citizen). But so what? Since when is it worth spending $100,000 in interest extra over the life of your mortgage in order to save $28,500 in tax payments?

Anyway, did you really purchase your house to be a tax write-off? I

doubt it. Chances are you purchased your house to have a place to live, love, grow, and feel at home.

Furthermore, what do the two of you spend most of your time worrying about? If you're like most couples, it's paying the bills. And what's your biggest bill? If you are homeowners, it's most likely your mortgage payment. Now imagine not having to make one. People always tell me that one of their most important values is security. Imagine the security you would feel knowing your mortgage was paid off, that you owned your home "free and clear." No matter what happened at work or with the economy, you would know you were safe.

Believe me, debt-free home ownership is a goal worth striving for—and all it takes is an extra 20 percent on your monthly payment to make it a reality a decade or more early. And you know what else happens when you pay your home off in 15 years instead of 30? You retire earlier—on average, seven to ten years earlier. As your financial coach, that's an option I would like you and your partner to have.

With this in mind, beware of the brokerage or insurance salesperson who suggests you should pull equity out of your home and "reposition" it in some mutual funds or insurance products where it supposedly can grow faster. Don't fall for this. The only reason these salespeople suggest this sort of thing is because of the commissions they can earn off your gullibility. Remember…you can't park your car or sleep inside a mutual fund. That's what your home is for, so don't risk it.

WHAT ABOUT PAYING OFF YOUR MORTGAGE RIGHT AWAY?

If you're fortunate enough to enjoy some huge windfall—say, a lump-sum inheritance or a big bonus at work—you may be tempted to take the money and pay off your mortgage in one fell swoop. But before you do

anything like that, first get some professional financial advice. While I believe in paying off your mortgage more quickly than the bank would like, it doesn't always make sense to pay it off all at once. There are a lot of variables involved—such as the interest rate on your mortgage, how long you intend to stay in your house, how much money you have, and when you were planning on retiring—and the right course of action isn't always obvious.

MISTAKE NO. 2
Not taking credit-card debt seriously.

Credit-card debt can destroy a marriage. I don't care how much two people may love each other, if one of them is constantly spending the couple into debt, I can promise you that eventually the relationship will fall apart. If both parties are running up debts, it will simply end that much sooner.

Why do I say this? First of all, carrying credit-card debt is stressful. Knowing that you owe a company money and that you're being charged as much as 20 percent interest on the outstanding balance will make even the most laid-back person anxious. Second, the anxiety never goes away; it's there—all day, every day—until the debt is paid off. And not only does it hang over your relationship, it hits you smack dab in the face every month when the bill shows up. A stressful relationship is not a happy relationship—and unhappy relationships usually don't last.

DON'T WAIT TO FIND OUT ABOUT YOUR CREDIT RECORD!

Nothing is worse than finding out that your partner has credit problems just when you're about to make a major purchase—say, when you're ready to buy your first home together. It's an exciting time. You decide you're

ready for the responsibility that goes along with home ownership, and it looks like you've finally got the money to swing it. So the two of you go to a mortgage company to get preapproved and—wham!—they run a credit check on you and out comes all this information that you never knew about your own credit and your partner's credit.

This happened to one of my closest friends, a guy named Alan, who makes a good living as a computer executive. When he and his new wife, Renee, started to look for a house in San Francisco a few years ago, he called a mortgage broker to get preapproved for a loan. This, he figured, was a no-brainer. He'd already asked Renee if her credit was clean and she'd said of course it was.

So imagine his surprise a few days later when the broker called him back and asked if he was sitting down.

"What's wrong?" Alan asked the broker.

"Well," he said, "Renee has some credit problems. In fact, her credit rating is so bad that there's no way the two of you can qualify for a loan together."

Alan was stunned. "How can that be? My credit is perfect, isn't it?"

"Sure," the broker said, "but hers isn't."

The problem was those nice companies that give away the free T-shirts and make it so easy to get a credit card when you're a student. With their encouragement, Renee had opened a couple of those accounts when she was in college, charged a few items, and then forgotten about them. Unfortunately, those nice credit-card companies don't forget. Instead, they had placed nasty little "no payment" flags on her record. And even though the amounts in question were relatively small (less than $200 on two accounts), that was enough to ruin her credit rating—and along with it, any chance she and Alan had of getting a mortgage together.

Fortunately for them, Alan's credit rating was strong enough to qualify him for a home loan on his own, and so they were still able to buy a house. Anyway, the point here is not to single out Renee, but to demonstrate how

easy it is to be blindsided by a bad credit report. Even when you think you have your act together, you may not. The moral…

FIND OUT YOUR CREDIT RATING NOW!

Don't wait to be surprised. This week go and get yourself a copy of your credit score and your credit reports. Since I originally wrote this book, things have dramatically changed. The government passed the Fair Credit Reporting Act (FCRA) that requires each of the nationwide credit reporting companies—Equifax, Experian, and TransUnion—to provide you with a free copy of your credit report if you request it. They have to do this by law once every 12 months.

There is only one legitimate website to go to and get these reports for free: **www.annualcreditreport.com**. Lots of websites say "get your credit report/score for free," but they are imposter sites designed to start charging you for this information 30 days later, so be very careful if you use any site besides this. If you find mistakes you can then go directly to the three major credit bureaus.

Here's how to contact these companies:

Equifax

P.O. Box 740241

Atlanta, GA 30374

(872) 284–7942

www.equifax.com

Experian

P.O. Box 2002

Allen, TX 75013

(888) 567–8688

www.experian.com

TransUnion LLC

Consumer Disclosure Center

P.O. Box 100

Chester, PA 19106

(800) 916–8800

(800) 888–4213 (if you have been declined credit)

www.transunion.com

If you discover any inaccuracies or mistakes in any of your credit reports, get them fixed immediately. The procedures for fixing mistakes in your credit report are relatively simple, and the individual companies will tell you exactly what's required on their websites. Basically, if you tell a credit-reporting company that your file contains inaccurate information, the company must look into your claim (usually within 30 days) and present all the relevant evidence you submit to whoever provided the information you're disputing. If this does not resolve the dispute, you may add a brief statement to your credit file, a summary of which will be included in all future reports. Read the latest updates on the procedures for fixing mistakes on your credit file on the companies' websites, as things may have changed since the Equifax data breach of 2017.

If you discover that you've got some legitimate black marks on your credit reports (for example, some old unpaid bills that you'd forgotten about), do whatever you can to correct the situation. In general, that means paying off those old debts and not letting any new bills go past due.

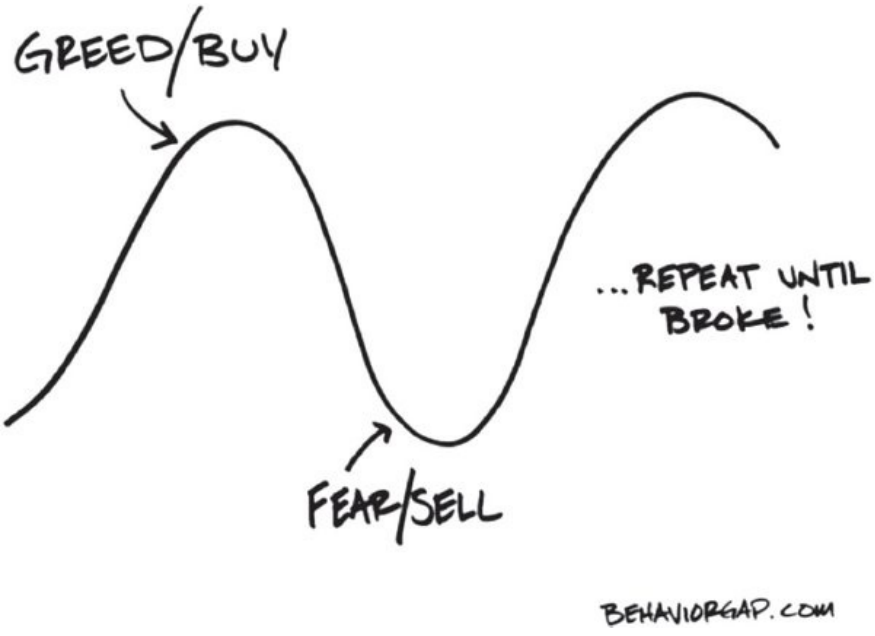
Beware of companies that say they can "fix" a bad credit report or give you a new, "clean" one overnight. There is nothing that will fix a bad credit report except the passage of time, a consistent record of responsible bill-paying, and contacting the credit-report companies to work with them to get your credit record clean.

Want more help? The largest nonprofit referral source for credit counseling is the National Foundation for Credit Counseling, reachable online at *www.nfcc.org* (800) 388–2227.

MISTAKE NO. 3

Trying to time the market.

Trying to time the market DOES NOT WORK. The idea that you are going to figure out when to move from stocks, bonds, and other investments to cash and avoid the next market downturn is a myth. You're not going to successfully time the market. At best you may get lucky once. You may be able to go to cash right before the market goes down but then you'll be sitting in cash when the market quickly recovers and leaves you behind in the dust. Most people move to cash after the market corrects and they DESTROY their retirement. The graphic shown here depicts this mistake.



Investors who moved to cash in record amounts in 2009 then sat in cash and watched their retirement earn nothing after losing 50 percent. Then, to add insult to injury, the market turned around and went up for eight

straight years. Ironically, many of these investors are now getting back into the market at the all-time high. **Please seriously listen to me on this: you will not succeed in timing the market.**

What works when you invest in the market is **TIME IN THE MARKET, NOT TIMING THE MARKET.** Sorry, we're not done here because this issue is too important to blow by.

3 REASONS TIMING THE MARKET DOESN'T WORK

1. HISTORY SHOWS TIMING THE MARKET DOESN'T WORK.

I show this chart in my seminars. Look at it closely. Read it twice. Let it sink in.

MISSING THE 30 BEST DAYS COULD CUT YOUR RETURN TO A LOSS

If you had invested a hypothetical $100,000 in the S&P 500 on December 31, 1996, by December 31, 2016, your $100,000 would have grown to $439,334, an average annual total return of 7.68%.

But suppose during that five-year period there were times when you decided to get out of the market and, as a result, you missed the market's 10 best single-day performances. In that case, your 7.68% return would have fallen to 4.0%. If you had missed the market's 30 best days, that 7.68% return would have dropped to –2.42%. Of course, past performance cannot guarantee comparable future results.

THE PENALTY FOR MISSING THE MARKET

Trying to time the market can be an inexact—and costly—exercise. S&P 500 Index: December 31, 1996–December 31, 2016

Period of Investment	Average Annual Total Return	Growth of $10,000
Fully Invested	7.68%	$439,334
Miss the 10 Best Days	4.00%	$219,112
Miss the 30 Best Days	–2.42%	$61,266
Miss the 50 Best Days	–4.16%	$42,750

Source: Sterling Capital

2. TAXES COST YOU WHEN YOU TIME THE MARKET.

The problem with moving from stocks and bonds to cash is that if you have profits, **you pay taxes** (assuming the money was in a taxable account). You're either going to pay ordinary income if it's a short-term gain or long-term capital gains tax if you've held the investment long enough to qualify. I think about this a lot with the markets at an all-time high right now. Here's the basic math. Let's say I have an investment that is up $10,000. If I sell it to prevent losing money when the market goes down I'm personally going to pay at least 33 percent in taxes on long-term capital gains (that's the brutal reality of living in New York City; I will have state and city taxes on top of federal). That means the market has to drop 33 percent to equal my decision to sell the investment and protect my gains to be even. Well, markets rarely drop 33 percent. The tax math makes selling to protect my gains against a short-term correction pretty silly to even try.

3. MARKETS RECOVER FAST—AND YOU CAN EASILY MISS THE RECOVERY.

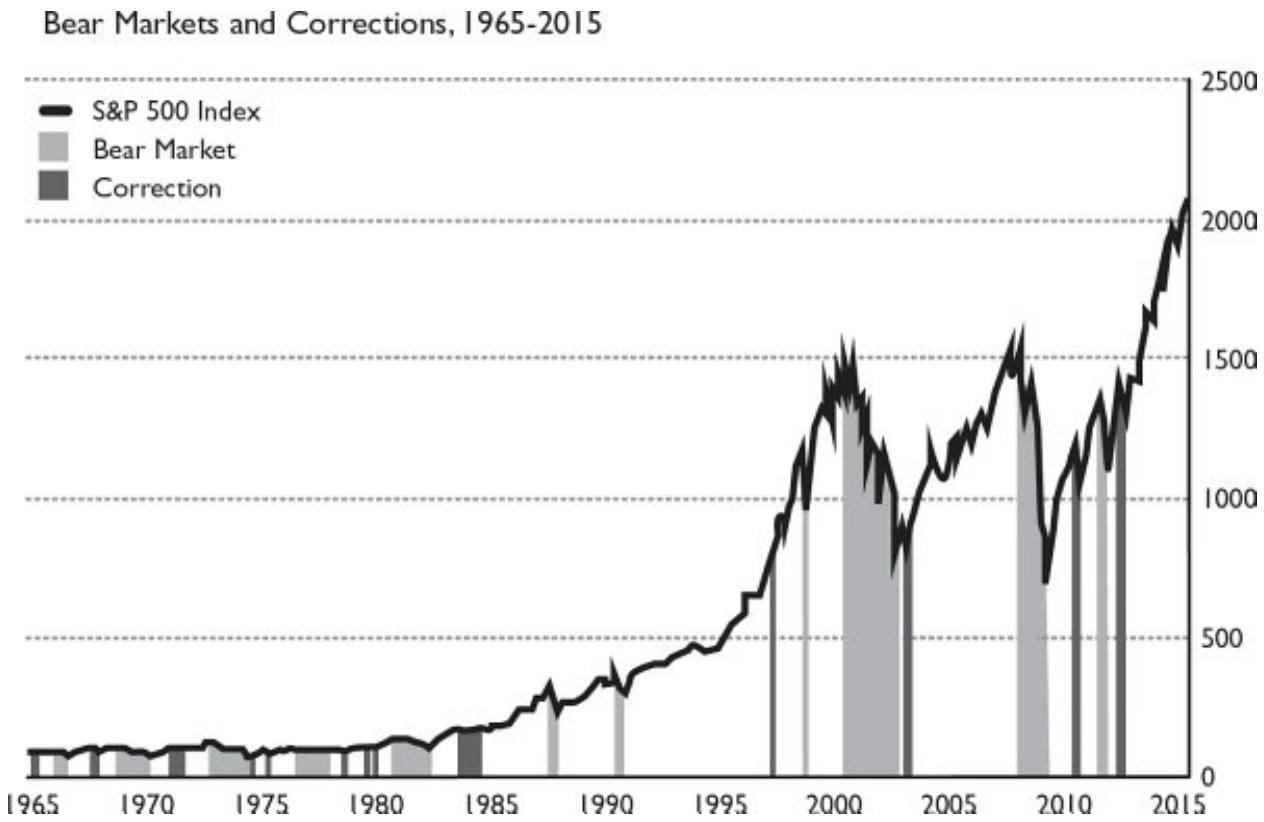
Stock markets experience declines—and these declines are normal. They're not fun, but they are normal. Over the past 50 years there have been 14

market corrections (a market that declines by more than 10 percent) and 11 bear markets (a decline of more than 20 percent). The average recovery took 107 days. That's basically three months. See the two great charts that follow. So why do investors bail out of markets consistently after declines? Because they believe it's going to get worse, not better. History shows that the markets ALWAYS RECOVER. **There has never, ever been a declining market that has not ultimately recovered.** Please remember this at the next downturn. If anything, when you see the next stock market decline ask yourself and your financial advisor whether that is the time to add to your investments. Are things on sale? They just might be. Most important, remember that it pays to stay invested. It's expensive to panic.

MARKET DECLINES HAVE ALWAYS RECOVERED

S&P 500 Corrections (Declines Greater Than 10% But Less Than 20%) 1965–2014

Peak		Trough		Recovery		Number of Days	
Date	Adj Close	Date	Adj Close	Date	% Drop	Peak to Trough	Trough to Recovery
4/2/12	1419.04	6/1/12	1278.04	9/6/12	−9.94%	61	98
4/15/10	1211.67	7/2/10	1022.58	11/4/10	−15.61%	79	126
11/27/02	938.87	3/11/03	800.73	5/27/03	−14.71%	105	78
2/18/97	816.29	4/11/97	737.65	5/5/97	−9.63%	53	25
10/10/83	172.65	7/24/84	147.82	1/21/85	−14.38%	289	182
2/13/80	118.44	3/27/80	98.22	7/7/80	−17.07%	44	103
10/5/79	111.27	11/7/79	99.87	1/18/80	−10.25%	34	73
9/12/78	106.99	11/14/78	92.49	8/10/79	−13.55%	64	270
6/30/75	95.19	8/21/75	83.07	1/12/76	−12.73%	53	145
11/7/74	75.21	12/6/74	65.01	1/27/75	−13.56%	30	53
9/8/71	101.34	11/23/71	90.16	12/20/71	−11.03%	77	28
4/28/71	104.77	8/9/71	93.53	1/18/72	−10.73%	104	163
10/9/67	97.51	3/5/68	87.72	4/29/68	−10.04%	149	56
5/13/65	90.27	6/28/65	81.60	10/5/65	−9.60%	47	100
				Mean	−12.35%	85	107
				Min	−17.07%	30	25
				Max	−9.60%	289	270



MISTAKE NO. 4

Buying stocks on margin.

Brokerage firms like to make investing as easy as possible for their customers. Among other reasons, this is why they are incredibly nice about lending you the money to buy more stock than you have the cash to purchase. As a rule, they will lend you up to 50 percent of the value of your account in cash or 100 percent in stock. In other words, if you currently own $10,000 worth of stocks, your brokerage firm will probably be happy to let you borrow $5,000 in cash or purchase up to another $10,000 worth of stocks "on margin"—that is, without your having to put up any additional cash. They'll simply advance you the money to buy the extra stocks.

Let's say Microsoft stock is trading at $80, and you want to buy as many shares as you can because you think at that price Microsoft is a steal. If you can come up with $10,000 in cash, your broker will let you buy

$20,000 worth of Microsoft—meaning instead of just 125 shares, you can get 250. That's definitely a good deal if the stock goes up, because owning more shares means you'll make a lot more money.

But what happens if the stock falls in price? Let's say Microsoft suddenly collapses by roughly 50 percent, from $80 a share to $40 a share. All of a sudden, your $20,000 investment is worth only $10,000. From the brokerage's point of view, the $10,000 loan it granted you is now a lot riskier. Brokerage firms don't like being in this kind of position. Each firm has its own policy, but the general rule is that once the equity-to-margin ratio on your account begins to approach 50 percent, the brokerage firm will start getting concerned—and you will more than likely get what is known as a "margin call." All of this will be stated in the brokerage's margin agreement.

Again, the specifics vary from firm to firm, but typically you will be given approximately 72 hours to pay off—in cash—enough of your margin debt to lower your equity-to-margin ratio to a level the brokerage firm finds more comfortable. If you can't come up with the money, the brokerage will "sell you out"—meaning it will sell off as much of your Microsoft stock as it takes to meet the margin call.

"But wait," you say. "I don't want to sell Microsoft at $40. That's way too cheap. I'm a long-term investor. I bought to hold."

Well, not on borrowed money you didn't.

The moment you borrow money from a brokerage firm to finance a stock purchase, you give up control over your account. Brokerage firms have the right to "sell out" margined positions in all sorts of circumstances, and they are not shy about exercising those rights. In the volatile markets of 2000, countless investors were sold out of their positions without even the courtesy of a telephone call. For many of them, April 14, 2000, will forever be remembered as "margined-to-death day." On that particular day, good stocks saw their prices cut in half, and all sorts of unsuspecting people discovered the hard way how dangerous

investing on margin can be. History repeated itself seven years later as the market corrected from 2008 and again people got crushed. As I write this, the market has been on a bull market since 2009 and is now up over 265 percent. So, of course, now would not be the time to borrow against your account, right? **Unfortunately, we have record amounts on margin again! Right now, as I write this update, margin debt is up over $582 billion!** The last time it hit records like this was in 2000 and 2008—both times before market crashes.

My rule of thumb when it comes to this sort of thing is simple: never buy stocks you can't afford to pay cash for. If, for some reason, you simply have to margin your account, never let your margin debt exceed 10 percent of your account's value.

One more thing: if your broker is constantly urging you to buy on margin, you've got a broker who is willing to take too much risk with your financial future. Find yourself a new one.

MISTAKE NO. 5

Not starting a college-savings plan soon enough.

You can't talk about financial planning for couples and not address the issue of college costs. But before I get into the details, there is an important point I need to stress. You shouldn't even consider putting aside money for your kids' college costs unless you are already putting at least 10 percent of your income into a pretax retirement account.

Your security basket comes first. College funding comes second. I see too many parents sacrificing their financial security for the sake of their children's college education, and that's a mistake. The greatest gift you can give your children is to ensure that you won't be a financial burden to them. If worse comes to worst, your kids can always get a part-time job when they're in high school and start putting aside their own money for college. There are also countless scholarships and loan programs for

deserving students.

Now that I've let you off the hook emotionally about what you owe your children in terms of paying for their college education, let's consider something all of us already know.

COLLEGE IS EXPENSIVE…AND GETTING MORE SO EVERY YEAR

According to the College Board, the average cost (including tuition, room and board, books, and transportation) of attending a state college in the 2016–2017 academic year was $20,090 (in-state) and $35,370 (out-of-state) For private colleges and universities, the figure was $45,370. And that was just the average. The most expensive institutions—a group that includes Ivy League schools—carry price tags topping $60,000.

Any way you look at it, that's a lot of money. And it's getting worse every year. According to the experts, college costs are expected to continue rising at a 5 percent annual rate for the foreseeable future. So advance planning is important.

Fortunately, saving for college does not need to be overly difficult or complicated. There are currently four basic types of college-savings plans.

UGMA AND UTMA ACCOUNTS

The oldest type of college-funding mechanism is not designed specifically for college costs. Established in some states under what's known as the Uniform Gifts to Minors Act (UGMA) and in others under the Uniform Transfers to Minors Act (UTMA), these are simple trusts that are set up by parents for the benefit of their minor children. Typically, the account name will be something like "Jim Smith as custodian for Jim Smith, Jr."

What UGMA and UTMA accounts do is allow parents to transfer assets to a child without having to hire an attorney to set up a special trust. Normally, minors are not allowed to own assets like stocks or mutual

funds or even bank accounts without a trust being established on their behalf. What makes these accounts popular is that they are easy to set up and manage. (Any bank or brokerage firm will happily take care of it.)

There is no limit on how much you can contribute to an UGMA or UTMA account, though anything over $14,000 a year may subject the child to federal gift taxes. While the assets in the account legally belong to the child, they are managed by whoever was named as the account's custodian (usually one of the parents).

The bad thing about UGMA and UTMA accounts is that when the child reaches the age of majority (either 18 or 21, depending on what you elect when you fill out the paperwork on the account), control of the account shifts from the custodian to the child. In other words, you can spend the better part of two decades saving for college for your adorable little boy, but if he grows up to be a monster who decides on his eighteenth birthday that he wants to use the money to buy a new Porsche and go to Europe with his girlfriend, there's nothing you can do about it. (Don't laugh; I've seen this happen.)

529 PLANS

Section 529 plans are how people save for college today. What the 401(k) plan has become to retirement planning, the 529 plan has become for college savings. **You should take advantage of these now, before some politician comes along and tries to end them (which has been discussed).** Named for the section of the Internal Revenue Code that governs the plans, this program authorizes states to establish two types of college-savings plans. The first type is called a "prepaid tuition program; the second is a college-saving plan. The prepaid tuition program is ideal for a parent who knows way in advance that she wants to send her child to a specific school in a specific state. Not very likely, is it? This is why I prefer

the college-saving plan. The proceeds from a college-saving plan can be used to pay for expenses at any accredited institution of higher education (even foreign universities).

Here is what a 529 college-savings plan does for you.

- The IRS does not limit how how much you can put in a 529 plan, so check your state's limits—they average around $300,000. The money you put in grows tax-deferred savings for each of your children's college educations. As long as the money you put in the plan stays in the plan, you don't pay taxes on its growth, dividends, or capital gains. There are many other positives. For one thing, you keep control of the money. You also can make withdrawals tax-free provided the money is used for a qualified educational expense. Unlike UGMA and UTMA accounts, 529 plans don't hand control over to the kids when they turn 18 or 21. If you fund the account and then decide your kids don't deserve the money, you can take back the cash, no matter how old they are. (You will be hit with a 10 percent penalty on the profits, but that's it.)
- A 529 plan also allows others to help you fund your kids' college costs. The government allows "third-party" contributions (e.g., by grandparents) of $14,000 per child in a single year—or a lump sum of $70,000 ($140,000 if it is a joint gift, e.g. from two grandparents) and the gift tax is then credited over five years. For kids with wealthy grandparents, this can make great sense from an estate-planning standpoint.

The best place to start your research is *www.savingforcollege.com*, which offers an incredible library of relevant material. The first thing to do is look at the plans in your state, as there may be a state tax deduction.

Websites for College Planning

www.collegeboard.org

www.collegeresults.org
www.college-insight.org
www.finaid.org
www.petersons.com
www.nasfaa.org
www.unigo.com

MISTAKE NO. 6
Not teaching your kids about money.

According to the National Council on Economic Education, 66 percent of high school students polled on basic economic principles flunked the test. Adults didn't do much better. Some 57 percent of them failed. Two-thirds of those tested didn't know that in times of inflation, money does not hold its value. Two-thirds of the kids didn't know that the stock market brings people who want to buy stocks together with those who want to sell them.

I find these results frightening, and hopefully you do, too. But being concerned isn't enough. Unless we do something, the situation is not going to change.

When you went to primary and secondary school, how many classes on investing did you have? Did your junior high and high school teachers ever tell you about retirement accounts, how to pay for a mortgage, the ins and outs of stocks and bonds, and the miracle of compound interest? When I ask these questions in my seminars, invariably fewer than 1 person out of 20 answers in the affirmative. Often, the response is so poor that I'll tap the microphone and ask, "Is this thing working? Can you people hear me?" This usually gets a laugh…but no additional yeses.

How can this be? How is it that our schools, which are supposed to prepare us for the real world, don't teach us anything about money?

One of the basic purposes of education is to prepare students to be productive adults in our society. By this standard, our educational system is failing us. Education about money should be a mandatory part of our national curriculum. Starting in the first grade, we should begin teaching our kids the basics about finance. This should continue every year, right through the end of high school.

When I was growing up in the 1970s, a big thing in elementary and junior high school was the Presidential Physical Fitness Test. For years, I wanted to win the presidential patch that proved I was physically fit. I remember the first time I took the test. I was in the third grade and I couldn't do one pull-up. I was totally embarrassed and ashamed, but I was motivated. It took me five years, but finally in the eighth grade (the last year you could take the test) I achieved my goal. I was able to do so many sit-ups and push-ups that the PE instructor stopped counting when I reached 50 and simply said, "Done."

I'll never forget what it felt like to cross the finish line having run a mile in less than the six-minute qualifying time. I had done it. I had reached my goal of being a Presidential Physical Fitness "winner." Some twenty-odd years later, I remember that moment as if it happened yesterday.

Why am I droning on about this? It's because I have an idea. Just like we had a Presidential Physical Fitness program, we should institute a Presidential Financial Fitness program. We should create a mandatory education program, starting in the first grade, to motivate kids to learn about personal finance by offering them the chance to win symbolic awards. Let's make learning how to be smart about money something that everyone does, not just the children of the rich (who are generally very good about teaching their kids how to become richer).

Education has always been the great American equalizer. We've always preached that anyone can become anything they want if they get a good education. Well, let's stop tying our kids' hands behind their backs and pushing them into the real world without an education about money. Let's

teach them now how to live and finish rich!

If you agree with me, go to *www.gov.com* and let your representatives in the House and the Senate know. This site tells you how to reach your representative. If a hundred thousand of us do this, they'll have to listen!

THE GOVERNMENT AND THE STATES ARE STARTING TO LISTEN...

Believe it or not, progress has been made in the past 15 years since I wrote the first edition of this book. The Council for Economic Education releases a bi-annual study, the latest of which found that 20 states currently mandate that high school students take economics. Additionally, 16 states require standardized testing on economic concepts (this is the real key). According to CNBC, 45 states now include personal finance in their K–12 standards, up from 21 in 1998. Their reporting indicated that the more rigorous the standards, the better the results. The fact is that financial education works if it's mandatory. Studies show that students' credit scores are better and they have fewer late payments on credit after they take a course on money. The problem is that this financial education is not mandatory nationally, in all states. There is simply more work to be done.

WHAT YOU CAN DO AT HOME...

You don't have to wait until your kids' schools teach them about money. That might not happen. So let's assume it's actually up to us. The question is, how do you start?

I was lucky growing up because my grandma Rose Bach and my father, Marty Bach, started teaching me about money when I was just seven years old. Together, they helped me to make my first investment in the stock

market (one share in McDonald's Corp.). My dad, who taught investment classes for almost 30 years, often took me with him to his seminars, and he talked to me about investing, the economy, and managing money just like he would talk to his adult clients.

Equally important, my father always shared with me and my sister, Emily, what was happening to our family financially. When business was good, he would explain why and how he was investing the family's money. When things went awry financially (and sometimes they did), he shared with Emily and me just what had gone wrong and how it might affect us.

In short, money was something that we all talked about at the dinner table. It was a normal topic of conversation, as it should be. It's hardly surprising, therefore, that Emily and I both grew up to become investors, and at most only a little surprising that we later both became financial advisors. The point is, we both grew up knowing how to handle money, and as a result we're both in solid financial shape.

Unfortunately, most parents don't teach their kids about money the way my grandmother and father taught Emily and me. I say "unfortunately" because the less your kids learn about money, the more likely it is that they will one day fail financially.

You don't have to be a financial professional to be able to teach your kids about money. You can still talk to them about how you are saving for retirement and why. You can discuss with them how you handle your credit-card debt, what sort of investments you are making, and how you make sure your financial practices reflect your values.

A good way to begin the process is by showing your kids the chart. Explain to them how a little saving every month can go an awfully long way. Kids are interested in being rich. And they love learning about money.

You should also take advantage of all the free information you can find these days online. There are a ton of great websites and new apps where kids and parents can learn about money together. According to a recent

survey, the average child spends four and a half hours a day playing video games, surfing aimlessly on the Internet, or watching television. Get your kids to spend just 10 minutes of that time each day at one of the following sites and they'll be learning, just as you are now, how to live and finish rich.

FIVE GREAT FINANCIAL WEBSITES FOR KIDS

Moneyasyougrow.org This government website links you to a dedicated page on the Consumer Financial Protection Bureau website. This page has a ton of resources to begin teaching your kids about money. It offers lessons based on your children's ages, from young children to teens. There are downloadable worksheets and tools as well.

FeedThePig.org This website is run by the the American Institute of CPAs. It's a really nice site with cool tools, articles, resources, and tips to help your kids on the road to financial stability. It has a section to help you create a savings plan. It also links you to its companion site at www.360financialliteracy.org.

SesameStreet.org *Seasame Street*'s website has a section called "Finance for Kids." Just search for it on the site and you'll see the fantastic lessons from Elmo. On this site, Elmo introduces young kids to the world of money. Check out "The Jobs Song," which uses a catchy song to explain how people earn money. This site is great for young kids.

DreamBigClub.org Started in 2001, *Sammy Rabbit* makes this site fun for kids to learn about money. This website has a ton of fantastic tools, curriculum, books, coloring books, songs, and videos to inspire young people to save, invest, and dream big. There are over 200 activities for kids, parents, and teachers. The site even features an original song called "S.A.V.E.," which they say was inspired by my book *The Automatic Millionaire* and has this fun lyric: "We're gonna make it habit, we're gonna make it automatic." To listen to it, click the Songs icon, then click "S.A.V.E." It's catchy. You can join this site for free.

JumpStart.org This nonprofit organization has now been around for more than two decades and is committed to training teachers to teach money curriculums in school. I have personally met with them and volunteered to speak to hundreds of their teachers who have been trained. It's an amazing organization, and its website is deep with real content, tools, and resources to take on the task of teaching your kids about money at home and in the school systems. I highly recommend that you dig around on this site if you're interested in this issue.

GET THEM A COPY OF *THE AUTOMATIC MILLIONAIRE*!

Yes, that is a blatant plug. But seriously, *The Automatic Millionaire* is the ideal book for young people to read (teens and college students). This is my best, simplest, most accessible book. You can read it in less than 90 minutes and put the plan in place in less than an hour—and be set for life. You can get a 13-year-old to read it—I know because many have written to me. If you read or buy only one more of my books in your lifetime it should be this book. And if you buy it for your kids and they don't read it now, don't assume they won't read it. Many 20-somethings and 30-somethings have told me that *The Automatic Millionaire* sat around their apartment for years and then one day they picked it up and finally read it. And it changed their life.

The bottom line is that you need to make your kids a part of the family's financial planning process. Remember, you can't ultimately protect your kids from the "real world" if you don't teach them about money.

MISTAKE NO. 7

Neglecting to sign a prenuptial agreement.

Prenuptial agreements are a touchy subject, but that doesn't mean we should ignore them. Increasingly popular but hardly routine, they can take

many forms. Typically, a "prenup," as it's usually called, is a legal document drafted by an attorney that you and your partner negotiate and sign before you get married. Basically, it sets out the terms of the marriage and specifies who is to get what in the event the two of you wind up getting divorced. Some prenups simply list all the assets each partner is bringing to the union, while others are filled with detailed clauses setting out exactly what each party's marital responsibilities are going to be.

WHO DOESN'T NEED A PRENUPTIAL AGREEMENT...AND WHO DOES

If neither you nor your prospective spouse has any assets to speak of, I've got great news: you can skip this section. You don't need a legal document to tell you how to divide what you don't have. But if one of you owns a lot more stuff or earns a lot more money than the other one, or if both of you have substantial assets (like stock options), then a prenuptial agreement is definitely called for. In fact, if there is anything significantly unequal about your respective stations in life—say, one of you has kids from a previous marriage or stands to come into a major inheritance one day—you probably should protect yourself with a prenup.

As I noted earlier, more than half of all marriages end in divorce. It's sad, but true. What's more, divorces tend to be messy. They hurt emotionally and they can cost a lot financially. A prenuptial agreement won't make the process of divorce easy, but because it settles in advance all those arguments over "what's yours and what's mine," it can make it easier.

BUT PRENUPTIAL AGREEMENTS AREN'T ROMANTIC

There's no sugar-coating it. Asking the love of your life to sign a prenuptial agreement while the two of you are planning your wedding does not make for great romance. Then again, handing over 50 percent of a fortune that you or your parents spent the better part of a lifetime building isn't much fun either.

Even though it may be a pretty difficult subject to bring up, I suggest you address it early on in your engagement (or even before you become engaged). Don't wait until the week of the wedding to let your beloved know you'd like him or her to sign a prenup. Each of you needs to have your own attorney review the document and make suggestions. That takes time. And don't think you can rush the process. If your estranged spouse can later plausibly claim that he or she signed the agreement either under duress or without fully understanding what it meant, the entire thing can be declared null and void.

So start the process early, and make sure both of you are represented by your own attorneys. If you can't get your attorneys to agree—and it's true, most lawyers live to argue—there are now specialists called prenuptial arbitrators who will listen to both sides and then recommend a compromise. Lastly, don't assume that doing a prenuptial agreement says something bad about your relationship. The truth is that a prenuptial agreement can have a very positive impact on your future. It can force you to start dealing with your financial values and goals right at the beginning of the marriage. Many couples have found that this process actually brought them closer and made them more serious about their financial future.

PRENUPTIALS ARE NO ONE ELSE'S BUSINESS

One final word on the subject: you have a right to keep this private. If you

and your partner agree to sign a prenup, it's no one else's business—not your best friend's or your parents' or anyone else's. Don't feel you have to explain it or justify it. As long as the two of you are comfortable with the agreement, that's all that matters.

MISTAKE NO. 8

Not having a greater purpose beyond the two of you.

So far in this chapter, we've talked about educating your kids about money and saving for college. Earlier in this book, we talked about investing and buying insurance and how to build a million-dollar retirement account. All this is important—essential even. But as important as it is, there are things more powerful than money when it comes to ensuring your long-term success as a couple.

Most successful long-term relationships share similar traits. Having worked closely with hundreds of couples, I've noticed over the years what the really strong ones have in common. They recognize the vital importance of patience and compromise. They possess common values and goals. But perhaps most striking of all, the really solid couples, the ones who seem happiest and most fulfilled, all seem to have dedicated their lives together to some greater purpose. This greater purpose can be many things. For some couples, it's a religious calling. For others, it's a charity or some community project.

I think we all have an urge to give our life some greater purpose. Unfortunately, it's all too easy to get so busy working and trying to get ahead that we convince ourselves this greater purpose is something that can wait until we have time. Maybe next year, we say, or the year after that, or when we retire.

I'd like to suggest that you and your partner stop putting this off. Sometime in the next 12 months pick a greater purpose together and dedicate a little time (and maybe even some money) to following through

on it. Find something that is not for the family directly but *involves* the family.

Many people say they don't give their time to some cause or charity because they don't know how (or where) to get started. If that's your challenge, try one of these websites. All are run by nonprofit organizations devoted to matching up willing people with worthy causes and or assisting with your giving.

www.give.org
www.helping.org
www.idealist.org
www.independentsector.org
www.nvoad.org
www.volunteermatch.org
www.score.org
www.nationalservices.org
www.charitynavigator.org
www.charities.org

You can also call your local chamber of commerce or town council. You'll be amazed how many organizations need your time and help locally.

MISTAKE NO. 9
Not figuring out who's responsible for what.

I can't tell you how often couples at my seminars ask me for advice about how to divide the financial responsibilities: Should they have joint accounts or individual ones? Who should pay which bills? Should their paychecks be pooled or kept separately?

When Michelle and I got married, we thought the answers to these kinds

of questions were obvious.

"Honey," I said, "you keep your money in your account and I'll keep my money in my account, and I'll pay most of the bills and you pay some of the bills, and then eventually we'll open a joint account and start a savings plan for 'our' money, and then if we go on a vacation…"

"No, honey," Michelle said, "we should put all our money in one account. After all, we're married now and everything should be together because we love each other and that's what couples who love each other do, plus it will be great to really know how all our money is being spent."

Oops, maybe it wasn't so obvious.

In fact, as I told you at the beginning of this book, Michelle and I had our first fight over this issue. The point is that you shouldn't assume that both you and your partner are somehow automatically on the same page when it comes to the question of how you are going to organize your finances and who is going to be responsible for what. If you haven't already done so, the two of you need to sit down together and specifically work all this out. The alternative is chaos and potentially major strife.

Now, there is no one "right answer" as to how a couple should organize their finances. But having worked as a financial advisor to hundreds of couples (not to mention being married myself), I feel safe in offering the following general guidelines.

1. **Each partner needs his or her own money.** Regardless of whether or not you both work, each of you should maintain your own checking and credit-card accounts. If Michelle buys me a gift for my birthday, I don't want to know what she paid for it. I also don't need (or want) to know every detail of where she spends her money. It's not my business. By the same token, I want my own space when it comes to how I spend money. It's not a matter of hiding anything; it's that we all need a certain amount of privacy. Having our own accounts gives us a very necessary sense of personal space.

2. **Each partnership should have an "our money" account.** While each partner should have his or her own separate bank account, if the partnership is long-term and committed, there should be a pooled or joint account as well. This account can provide the funds for all the household bills. It can also be where your security-basket money ultimately gets saved. Michelle and I actually have **two** "our money" accounts: one for our security basket and one for our dream basket. We pay our bills from our "security basket," making sure we always have at least three months of expense money saved (after the bills are paid).
3. **Spell out who's responsible for paying which bills.** I personally hate paying bills. Writing checks puts me in a bad mood. On the other hand, I also don't like worrying about whether the bills were paid. When Michelle and I first got married I paid some bills and she paid others. Often, a bill would fall through the cracks, ending up in what I call "I-thought-you-paid-it land." This is not a good place to be, since it leads to many arguments and quite a few late fees. In the end, Michelle and I decided that I'd pay all the bills. (I still hate doing it, but at least I don't have to worry about whether or not it's getting done.) Needless to say, we could have as easily decided that Michelle would pay them all, or that I would pay one month and she the next, or some other system. The point is that we sat down and worked things out. We didn't leave our bill-paying to chance. Neither should you.
4. **Keep in mind that there are no hard-and-fast rules.** If pooling all your money works for the two of you, that's great. If keeping it all separate works, that's great, too. Ultimately, you need to do what works for you as a couple. But it does need to work for *both of you*. In many marriages this single issue of how to handle the checking accounts and pay the bills is a monthly battle. You can't have a great marriage or long-term relationship if every month you find yourselves fighting

about who's responsible for what when it comes to your finances.

MISTAKE NO. 10
Not getting professional financial advice.

The fact that you have read this far into the book tells me you're truly someone who is serious about money. As I mentioned earlier, very few people who buy personal-finance books actually get past more than a few chapters.

By now, I would hope that you are very excited about your future and what you'll be able to do with it. It's also possible, however, that your head is spinning with all the information I've given you. Financial planning is not something you master in a day or a week or even a month. It's a lifelong journey, and as is the case with many long journeys, it's often best to hire yourself a guide.

That's how I think of financial advisors. They are like professional coaches or guides. You and your partner decide together where you want to end up, and then you go out and hire a professional to guide you along your path to living and finishing rich.

Now, some people are born "do-it-yourselfers." They simply have to do everything themselves—including managing their money. If you're one of them, I salute you. Hopefully, this book will make it easier to make smart decisions about your money. On the other hand, if you are the type of person who appreciates getting advice and enjoys working with professionals, then hiring a financial coach makes a lot of sense.

THE RICH HIRE FINANCIAL ADVISORS

The rich almost always use financial advisors. This is not my opinion; this is a fact. There are approximately 2 million households in the United States

with a net worth of over $3 million, and the bulk of these families work with one or more financial advisors. What about the rest? According the Certified Financial Planning Board, more than 40 percent of Americans choose to work with a financial advisor. This is up from 28 percent in 2010.

Hiring a financial professional to assist you is not a sign that you are weak or lazy. Smart, successful people hire coaches all the time. Serena Williams, one of the greatest tennis players of all time, still works with a tennis coach. She doesn't say, "Oh, I know everything there is to know about tennis, I'm done learning." She uses a tennis coach to keep getting better. Michael Jordan, the greatest basketball player of all time, was devoted to his coach, the Bulls' Phil Jackson. Some of the world's most successful CEOs now have business coaches.

Why do successful people like these hire coaches? Because they know that to achieve extraordinary results you've got to keep learning, and a good coach makes learning a lot easier. A good coach gives you honest feedback and objective criticism, and can often see things about you that you can't. In my own practice, my greatest value to some clients is simply in being honest and providing a wall off which they can bounce ideas.

So how do you find a good financial advisor? It's not always easy, and I can't offer you any magic formulas. What I do have are **Nine Golden Rules for Hiring a Financial Advisor,** which should make the process easier and, in the end, help you hire the perfect financial coach.

NINE GOLDEN RULES FOR HIRING A FINANCIAL ADVISOR

RULE NO. 1

Hire locally.

I get requests from people all over the world asking me to manage their money. What I generally tell them is to try to find an advisor in their own backyard. You should consider doing the same. Why? Because if you're

going to put your wealth in the hands of a financial coach, you want someone you can work with face-to-face. In my opinion, it's crucial that your advisor be a person with whom you can form a really strong relationship—and ideally meet with at least twice a year. As the years go by, we may all find ourselves routinely communicating via video conferencing, but in terms of building both confidence and understanding, there is no substitute for meeting personally with the individual or team that is handling your money.

With this in mind, all the suggestions I am going to provide are intended to help you find a financial advisor in the general vicinity of where you live. This doesn't mean he or she should be literally down the block. Depending on where you live, hiring someone "locally" could translate into driving a few hours to a nearby city. But, ideally, you shouldn't have to go any farther than that to find someone really good.

RULE NO. 2

Get a referral.

It may sound like a cliché, but the best way to find a top-notch financial advisor is to ask the wealthiest person you know whom he or she uses as a financial advisor (and ask if they trust and like their advisor). Then ask them, "Why?" This wealthy person doesn't have to be a friend; he or she may be just an acquaintance, or even your boss. Most people are flattered to be asked for advice, and in most cases they'll be happy to refer you to their advisor. What this means is that they will call their advisor on your behalf and introduce you. Generally speaking, unless you have a lot of money, you'll have a hard time getting in to see the best advisors without this type of introduction. Which is where using a "robo-advisor" can come into play until you have enough money to work with a full-service advisor.

The truth is that really good advisors usually have account minimums—that is, they don't take on a new client unless that client has some sizable

amount of money to invest. But if you get a referral, the door that might have been otherwise closed gets opened. For example, if one of our top clients refers a friend or family member to us, that friend or family member is going to get red-carpet treatment at our office. We want to keep our top clients happy, and that means taking care of those they refer to us, even if the account is below our standard minimums. That's the power of a good referral from the right person.

RULE NO. 3

Check out the advisor's background.

Nothing else matters if you don't follow this rule. I don't care how successful someone looks, how highly recommended the advisor comes, even whether his or her name is on the building—if you don't check out your advisor's background, you are setting yourself up for trouble.

There are many advisors who appear to be successful, but who, in fact, are really nothing more than good salespeople. Some sincere-sounding advisors stretch the truth, embellishing their experience and educational background. Some very charming advisors have had formal ethics complaints filed against them. Some even have criminal records.

There's only one way to protect yourself against this sort of thing. In order to become licensed to sell securities, brokers and financial advisors have to pass tests and register with the National Association of Securities Dealers. So before you hire a financial advisor—in fact, before you even meet with one—visit the BrokerCheck site run by Financial Industry Regulatory Authority at www.brokercheck.org. It will tell you almost everything you'll ever need to know about a registered advisor's background: educational, work, and business history; licenses held and in what states. This website is now the best it has ever been as a quick resource to explore your advisor's complete history.

Perhaps most important, BrokerCheck will let you know if an advisor

has any "disclosure events" on his or her record. A disclosure event is an ethics complaint or a criminal prosecution, and you probably don't want to hire a financial advisor who has one. BrokerCheck won't reveal the nature of any particular disclosure event that may be on your advisor's record, but it does permit you to request additional information by mail and link you to the SEC website. Also visit www.investor.gov and then click on the Investment Adviser Public Disclosure section. Additionally, check out the SEC website at www.sec.gov. There's an entire section on this website called "Protect Your Money—Check Out Brokers and Investment Advisors." This section is fantastic and it goes into detail on everything you need to know, with direct links to additional resources to review your advisor's background if he or she is an investment advisor and not a registered broker. If the advisor is a registered investment advisor, make sure you check out his or her "Form ADV." There are two parts to the ADV, and the advisor needs to update these annually. You can also go to www.adviserinfo.sec.gov and look them up yourself. Individual investment representatives of an RIA are also listed here.

There are many good advisors out there. I'm giving you all this detail to protect you from falling prey to one who's not.

RULE NO. 4

Be prepared.

Being prepared means that you have with you all of your pertinent financial documents. In Appendix 2, you'll find a copy of my FinishRich Inventory Planner™, a document organizer that will help you figure out what papers you'll need to bring to that first meeting.

If you are uncomfortable sharing your personal financial information with an advisor, you're not ready to hire one. Showing your financial records to an advisor is like exposing your body to a doctor. In order to be able to help you, the professional has to be able to conduct an

examination. And don't worry about being embarrassed. Just like a doctor, a financial advisor sees countless "patients"—and lots of them are probably much worse off than you.

RULE NO. 5

Always ask about the advisor's philosophy.

When you go to your first meeting, make sure to ask the advisor about his or her philosophy on financial planning and money management. A serious professional should have no trouble explaining his or her approach to planning and investing simply and coherently. If yours can't do this, take your business elsewhere.

What you definitely don't want is a salesperson. A salesperson won't lay out a philosophy. A salesperson will spend most of the time telling you what you want to hear. "Oh, Mr. Jones," he or she will say, "you like stock trading, do you? Well, I'm a specialist in stock trading." "Oh, you're getting stock options? Well, I'm a specialist in stock options." "Oh, you're interested in buying an annuity? Well, annuities are all I do."

You probably think I'm exaggerating. I'm not. These kinds of responses are actually taught by old-school sales trainers. Someone who uses them is not the kind of advisor you want. You want someone who will spend most of the first meeting with you reviewing your financial and personal situation. Someone who will ask a lot of questions about you—your dreams, goals, and concerns. And not do a lot of talking (i.e., selling). Someone who doesn't brag about performance. If an advisor starts promising you high returns, leave the office immediately and don't look back. Too many advisors these days use the remarkable returns of the recent bull market to position themselves as investing wizards. Repeat after me…

Past performance is no guarantee of future performance!

An advisor you can trust talks about "reality investing." Although stocks have generated an average annual return of close to 17 percent over the last five years (remember the chart on this page), that doesn't mean that the stock market will continue at that pace. In fact, I am pretty darn sure it won't. Which is why you need to work with an advisor who discusses realistic returns and shows you history. A good advisor will go over historical returns of the stock market, not a positive snapshot in time. The return over 90 years has averaged right around 10 perent for the stock market and around 8 percent for a diversified balance account. There have been good times and there have been average times, and there have been plenty of years—even decades—in which stocks didn't make money.

RULE NO. 6

Go with your gut.

Your first meeting with a financial advisor is like a date. And much as with dating, you typically know right away if there is a connection. There will be a little voice inside you that says, "I trust this person, it feels right," or "I'm not sure," or "No way, José."

Go with your initial gut feeling. I usually know in the first 10 minutes whether or not I want to work with someone. In fact, I can usually tell over the phone when they call to make the appointment whether this is someone with whom I'd enjoy having a long-term relationship. Every time I've gone against this gut feeling, I ended up with a problem client.

Remember, when you hire a financial advisor, you're looking for a long-term relationship. Ideally, he or she will be helping you with your money for decades. If you start off with someone you don't have a good feeling about, the moment something goes wrong (like the market dropping), you'll be looking to bail out and find a new advisor.

RULE NO. 7

Be prepared to pay for the advice you get.

Professional financial advisors do not normally give you free advice. You'd think this would be obvious, but in this "free" Internet world where we've gotten so used to everything being given away (or at least offered at steep discounts), many people actually think they can go into a financial professional's office and get the benefit of his or her experience and knowledge for nothing. Sorry, but it doesn't really work that way. You will be offered in most cases a complimentary review meeting to go over your situation. Then if there is a fit (you want to move forward) and the advisor feels that he or she can help you, the advisor will offer to provide you with a detailed financial plan. The advisor will normally present this in a second follow-up appointment, at which point, if you move forward, you will pay for the advice proposed. Some advisors charge for this financial plan up front, whether you move forward or not. Make sure to ask them if there is a fee for the plan.

So how do you pay for your advice if you move forward? The financial-services industry has been going through massive changes in recent years, but there are two basic fee structures used by most professional financial advisors.

COMMISSION-BASED ADVICE—BROKERS

A commission-based advisor earns a fee each time he or she buys or sells an investment for you. For the past hundred years or so, this is how the majority of stockbrokers (now called financial advisors) have worked. This type of advisor is quickly becoming extinct. The simple reality of life is that very few advisors today are still pure commission-based advisors. Instead, they are becoming what is known as a fee-based advisor or fiduciary. Or in some cases a "hybrid" advisor or dually registered—earning both commissions and fees. We'll cover that next.

FEE-BASED ADVICE—REGISTERED INVESTMENT ADVISORS, A.K.A. "FIDUCIARIES"

When I wrote this book originally, I said that I thought fee-based advice was where the industry was headed, and without question it did. Today RIAs—Registered Investment Advisors, known as "fiduciary advisors"—who charge a flat fee on assets are where the industry has moved to. With an RIA, you are hiring a fiduciary who charges a fee on the assets he or she manages for you. With fee-based advice, you pay an annual fee for all the services your financial advisor provides, including all your trades, meetings, proposals, performance reports. Generally speaking, the fee is a set proportion—normally between 1 and 2 percent—of the amount of money the advisor is managing for you. So if you have $100,000 to invest, the advisor will charge you $1,000 to $2,000 a year.

Today every major brokerage firm and independent firm in the country is embracing the model of the fee-based payment structure. And because of the competition, the price of fee-based advice is quickly coming down. The fee structure will almost always depend on the amount of money managed. The more assets, the lower the fee.

As far as I'm concerned, this structure has a lot of advantages. For one thing, there is now no possible conflict of interest. Since the advisor's pay depends on the value of your assets, it's in the advisor's interest to see your assets grow. Moreover, fee-based advisors get paid only if their clients are serviced well and kept happy. If they invest their clients' money and then forget about them, the clients will leave and the fees will stop coming. For this reason, fee-based advisors tend to be more service-oriented. To fee-based advisors, new clients represent more than a one-time sale; their businesses are based on long-term relationships. (By the way, if you hire a fee-based advisor, make sure you tell your tax accountant, because under some circumstances the fees you pay may be tax-deductible.)

HYBRID ADVISORS—DUALLY REGISTERED ADVISORS

A dually registered advisor is both licensed to sell securities through a brokerage firm and licensed to provide advice as a registered investment advisor, normally referred to as an RIA. Typically, you hire a financial advisor who explains that he or she is an RIA and does fee-based planning. The advisor will create a financial plan and ultimately provide you with an investment proposal. From there, the advisor will build for you a diversified portfolio of professionally managed mutual funds (as an example) and charge you a flat fee of, say, 1 to 2 percent on the assets managed (again, this is only an example). Then, if you need life insurance (the agent will have a license for life insurance) or you're interested in an annuity (like a variable annuity), that product will be sold under the brokerage license, whereby the advisor is paid a commission. The bulk of advisors today are actually dually registered. The key is to ask whether the advisor is dually registered. It's confusing, and you should know which hat the advisor is wearing when he or she provides you with advice that you pay for.

WHAT TYPE OF ADVISOR SHOULD I LOOK FOR?

I personally recommend that you first and foremost work with a fee based Registered Investment Advisor (RIA) firm—a "fiduciary." As an RIA, the advisor has a fiduciary responsibility by law to put your interests first and disclose any conflicts of interest. For example, the advisor should not recommend an investment because he or she would be paid a higher commission or fee to do so. The financial services industry (particularly the large national firms) over the past few decades made a practice of pushing

proprietary funds (their own products) to earn a higher fee. This practice has been substantially reduced in recent years as a result of lawsuits. I want an advisor who is independent and free of conflicts of interest. I want an advisor who is focused on what is best for me and is truly transparent. Which leads to the last issue: if the advisor is a dually registered advisor—that is, he or she is an RIA and a licensed broker—then I want to know that up front. I want the advisor to explain to me what that means. And I want that advisor to show me the fees and commissions that he or she is earning.

THE VALUE OF HIRING A FINANCIAL ADVISOR

The question is easy to ask yourself: Is professional advice worth paying for when it comes to your money or can you do this yourself? I'm going to be supercandid with you here—once you have over $100,000 to invest I think it pays to get professional financial advice. This book covers so much, and it's not as simple as "click, click, submit." Not yet anyway.

Comprehensive financial planning if done correctly is holistic and goals-based. That means the financial planner has really asked you a lot of questions based on your values (as we covered in Chapter 2). The advisor has looked at what is most important to you (and your partner) and then helped you BOTH think through your goals, dreams, and fears. The advisor has gotten to know YOU. And ideally he or she has helped you think through issues you may not have been thinking about. Finally, there is the money management aspect that is, again candidly, complicated. When the markets are not going up (or are going down rapidly), having a competent, calm financial advisor can be the difference between panicking and destroying your financial life and being okay long term. Lastly, great advice pays off.

THE RIGHT ADVISOR CAN BE WORTH OVER 3 PERCENT ANNUALLY

I'm often skeptical on specific data points around advice. Still, Vanguard is a very credible source, and this data comes from them. According to a Vanguard Research Report, the potential for an advisor to add value to a client relationship can be significant. In their words, it's about "3% annually." How?, you might ask.

- Lowering expense – cost-effective implementation = 45 basis points (0.45%) savings
- Rebalancing – your investments = 35 basis points (0.35%) savings
- Behavior coaching – helping you to not hurt yourself = 150 basis points (1.50%) savings
- Asset location – optimizing portfolio that minimizes taxes = 0 to 75 basis points (0.75%) savings.
- Spending strategy – the way you withdraw your money = 0 to 70 basis points (0.70%)

If you add these up it comes to 3.75 percent. Vanguard is very clear in the study that this is not an annualized projection. If you want to read the detailed report yourself, Google it. It is sourced below.

Source: Vanguard Research, *Putting a Value on Your Value: Quantifying Vanguard's Advisors Alpha*. Authors: Francis M. Kinnery, Colleen M. Jaconetti, Michael A. DiJoseph, and Yan Zilbering.

WHAT ABOUT THE FIDUCIARY RULE?

As I write this, the Fiduciary Rule is like the U.S. healthcare system: still up

in the air. The Department of Labor (DOL) had a new Fiduciary Rule that was supposed to go into effect and completely change the transparency and rules around the way financial advice was given. The current administration has put this new regulation on hold. What matters for you is transparency and no conflict of interest. With or without legislation, you want a financial advisor you can trust, who is transparent and puts your interests first, not his or her own. **This isn't that complicated. From an advisor's standpoint, it's called "do the right thing, always, for your client."** The complicated part is finding that advisor. They're out there. The best way, for now, to achieve that transparency is to work with an RIA who's a fiduciary and use these rules.

RULE NO. 8

If you can't get a referral, do your own research.

There are many great financial advisors out there who are fiduciaries and are client-centric. This is what you want.

Following is a list to help you get your search started.

Financial Planning Association (FPA)

(800) 322-4237

www.plannersearch.org

This site allows you to search by zip codes for the names of certified financial planners.

National Association of Personal Financial Advisors

www.napfa.org

(888) 333-6659

This site allows you to search by zip codes and offers links to fee-only advisors.

CHECKING OUT AN ADVISOR'S BACKGROUND

Financial Industry Regulatory Authority

(800) 289-9999

www.finra.org, go to *www.brokercheck.finra.org* [website no longer available]

This is the self-regulatory organization for the financial services industry. Always start here.

Certified Financial Planner Board of Standards

(800) 487-1497

www.cfp.net

This group sets and enforces the standards advisors must meet in order to call themselves certified financial planners. The site allows you to check the status of a CFP certificate.

National Association of Insurance Commissioners

(816) 783-8500

www.naic.org

This group is an organization of state insurance regulators. Through its online National Insurance Producer Registry (NIPR), you can find information on more than 2.5 million insurance agents and brokers, including their licensing status and disciplinary history.

BECOME AN "A" CLIENT

It is not enough simply to hire a good financial advisor. You want whomever you hire to pay attention to you—ideally, to consider you one of his or her most important clients. Most people think that in order to be important to a financial advisor, you need to have lots of money. Nothing

could be further from the truth. I have had clients with assets that range from $1,000 to $100 million, and I can assure you that some of the smaller ones are just as important to me as the biggest ones.

The fact is, it's not just money that determines how much your financial advisor cares about you. It's how you treat your financial advisor that matters. As an example, I have a client, Francine, who opened an account with me with just $1,000. I put Francine's money into a stock that tripled in value, so all of a sudden she had $3,000. I also bought this stock for more than a half-dozen other clients. Most of them made significantly more money than Francine because they had more invested. Unlike any of them, however, after the stock took off, Francine showed up at my office one day with four bottles of wine as a gift for me and each of my assistants. Now, I don't know what the wine cost Francine. I don't even remember whether it was red or white. What I do remember is that this small gesture of hers was talked about in our office for weeks. We couldn't believe how special it was. I'm still talking (and now writing) about it years later.

So when your financial advisor makes you some money, take a moment to say "thank you." Sure, it's his or her job to make you money. But that's no reason not to show your appreciation. No matter how small your portfolio, a small gesture like a simple thank-you note or a bottle of wine can transform you to an "A" client.

Another great way to say "thank you" to your advisor—and become as a result an "A" client—is to refer the advisor some new business (that is, to recommend that a friend hire your advisor). Not only will this show your advisor how much you appreciate what he or she has done for you, it may turn out to be just what your friend needs to get his or her financial life together.

And it's not just financial advisors who should get this sort of consideration. When Francine gave me that little gift, it made me realize that I had never once expressed my appreciation to any of the professionals

on whom I depend: my attorney, my CPA, my doctor, my haircutter, the mechanic who looks after my car—the list goes on and on. So three years ago I started sending them all thank-you notes and in some cases a gift basket at Christmas. The first time I did this, my doctor called me personally to say "thank you." Guess what? Even though my doctor is routinely booked up three months in advance, I never have to wait for an appointment anymore. I just seem to get right in. My car mechanic framed my thank-you letter and posted it on the wall of his waiting room. My CPA seemed to find more deductions the next year.

I'm not kidding. Because of my small gifts and notes, my relationship with all these professionals is now different. They remember me because I made a small gesture to say "thank you." Try it. Our parents were right: saying "thank you" goes a long way.

RULE NO. 9

Make sure your check goes to the custodian—not the advisor.

This is, candidly, the most important of all these rules to protect you from a Bernie Madoff situation, Ponzi scheme, or theft of your money. Never write the check directly to the financial advisor. Never! The advisor should be working with a major brokerage firm. If the advisor is a fiduciary, he or she will be using what is known as a "third-party custodian." The largest brokerage firms that hold RIAs' assets for clients are *Fidelity, TD Ameritrade, Charles Schwab*, and *Pershing*. Your money will be held at the brokerage firm, and you will sign a limited power of attorney that gives the advisor or money manager the ability to manage the money. You never want to give an advisor the right to "write checks" or make "withdrawals." Never, ever, ever. This is a very important level of security for you and your money. Take it seriously. Ask the advisor whom they custody with. And, remember, that's who you write the check to. Finally, remember to go online at these firms—and see that your money is there. I always say: *Trust but verify*.

WHATEVER YOU DO...DON'T GIVE UP!

There's one other big mistake that investors often make—and it may be the biggest one of all. They give up.

Back at the beginning of this book, I told you the story of how my grandmother lost all the money she had saved her first year of investing. That experience could have easily convinced her that she should just stop trying. She could have decided that it just wasn't worth it. After all, she had made some huge mistakes. She had invested on tips, used a mediocre broker, failed to do her own research.

When she told me the story, I asked her what had kept her going after that disastrous first year. She smiled and said, "David, I looked at my life and said, 'Rose Bach, if you want to be rich, don't you dare quit now.' "

Imagine the strength it took to make that decision not to quit. Her friends teased her constantly. "Oh, Rose," they'd say, "come to lunch with us." "Oh, Rose, you don't need to worry about retirement—you'll have Social Security." "Oh, Rose, why do you worry so much? The future will take care of itself." Why were her friends so unsupportive? Maybe because they were afraid of what she might accomplish—that she would become rich and they wouldn't.

Remember, you have a choice in life: you can accept what you have or you can decide to live life with a plan and a purpose—which is to say, to its full potential. Following through on that decision to go for it isn't always easy. You're going to make mistakes—hopefully not the ones I listed in this chapter, but there are bound to be some. And that's okay. In fact, it's perfectly normal. The important thing is to learn from your mistakes, to get back up again, and to keep moving forward. Like everything else that's worthwhile, living and finishing rich takes real commitment. But if you and your partner want it badly enough, I know in my heart that, working together, you can make it happen.

PLAN A MONEY DATE™

Over the last eight chapters, we've been talking about all sorts of action steps designed to help you and your partner live smart and finish rich. We've covered a lot in this book, right? Didn't I tell you this update would be worth your time? I just gave you a complete top-to-bottom financial-planning overview. This book was thorough—and you made it to the end. *Well done!* Seriously, it's impressive, and it shows you're committed. I've taken you from getting organized financially to **Purpose-Focused Planning**, all the way through security, retirement, and dream planning. As I've said repeatedly, if the two of you follow only a few of the steps, you'll be better off than 90 percent of the population. If you do *all* of them, you've got a great chance to be in the top 1 percent. You've now got a list of things you know you need to do. Your partner may also have a list. You now need to get on the same page and go to work on this. **The fastest way to stop worrying about money is to work on your money together.** The best way to do it is to plan a **Money Date™.**

THE MONEY DATE™: HOW TO MAKE YOUR DREAMS REAL—AS A COUPLE!

When I went around the country promoting the first edition of this book, I kept doing interviews where I said, "The key to making money work for couples and stopping the fights is to make money romantic." Arianna Huffington wisely asked me on my last tour, "How can you possibly make managing money romantic?" My answer was "You need a Money Date." Matt Lauer interviewed me on *Today* and basically questioned whether talking about money wasn't a little like going to the dentist. I had to laugh. "No, Matt, it's much better than going to the dentist," I replied, "provided you work as a team! You just need to start with a Money Date."

Why? It's actually very simple…

Couples that plan together, win together.

—David Bach

But here's the tricky part. *When do you plan? When do you work on your money? When do you talk about it*? What I have seen from my experience as a financial advisor, educator, and co-founder and executive running a financial service company is that *most couples talk about money at the wrong time*. Most couples talk about money reactively. Most couples talk about money when they're paying the bills. Often, what happens is that one person is paying the bills and the other person is going about his or her day obliviously—then WHAM!—the conversation starts. "Did you know we spent x amount of dollars on x stuff this month?" The conversation might have started innocently over a particular item, but it often leads to a fight over the bigger issues that are not being discussed (either whether the couple is saving enough or, if they're retired, do they have enough money). And if the money fight doesn't start while paying the bills, then it typically starts in bed or in the car. Trust me, bed is never a good place to talk about money (unless it's a lot of money and you're giving it to your partner). And the car? What usually happens is that the motivated partner gets his or her significant other locked in a car that is trapped in traffic and then wants to talk money. Funny, right?

Probably by now you're smiling or laughing because you have experienced this personally. I relate these examples because this is what people really do. *Don't do this.*

The secret to being a smart couple who lives and finishes rich is that you work on your finances proactively as a team. You plan time to talk before there's an emergency. Don't wait until one of your kids is a year away from college to discuss money. Don't wait until a month before retirement. Don't wait until one of you is sick. Don't wait until it's too late. Plan a time to talk now.

PLANNING YOUR FIRST MONEY DATE

So now you need the time to talk about this stuff we've covered. You need to schedule what I call a **Money Date**. What's a Money Date? It's a designated time during which the two of you agree to discuss your financial life and work on it. You can literally use the chapters of this book as your Money Date guide. You can start with Step One and take the quiz. Then you can go through Step Two, discussing your values as a couple using the *Value Circle* and write out your Purpose-Focused Financial Plan (Appendix 3). What could be cooler and more romantic than having a date where you talk about your highest values both individually and as a couple and discuss your goals? Maybe on the first date you skip ahead on the steps and get your financial life organized using the *FinishRich File Folder System* in Step Three. Do as much on a date as you can, or spread it out over a half dozen dates. The point is that you hold the road map. You've got the tools. The secret is that you need to carve out the time to do it. And that's why I call it a **Money Date.**

You now need to get a designated time on the calendar, knowing full well (both of you) that you are setting aside this time to talk about your money, without distractions. If both of you have agreed in advance what you will talk about, the conversation can be that much easier and more productive. Furthermore, many couples who have financial advisors regard

the meeting with the advisor as that special "Money Date"—only now, with my coaching, they plan a lunch following the appointment to connect with each other even more deeply. The key is that you need the designated time to talk about all the little stuff and the big stuff.

When you bring this idea up with your partner, you can simply explain, "It's David's idea—he said we need to do this." I know this date will help you BOTH. Seriously, try it.

Finally, if your financial advisor gave you this book—and so many do give this book to their clients—please thank the advisor and let him or her know when you had your date! Lastly, I recommend, as time goes on, that you plan an annual Money Date, like a **Money Date Anniversary**. Many couples schedule this around their anniversary or around the time of their annual financial review with their trusted financial advisor.

CELEBRATE YOUR SUCCESS

Too often in life, we get so focused on the result that we lose sight of the process. Part of planning a **Money Date** can also be celebrating what is already working in your life and how far you have come. Whenever I ask couples to tell me about their past, I also ask them, "What have you overcome together?" It's amazing how just that question can lead to a half hour's discussion that is insanely deep and powerful. It's sometimes easy for couples to forget in the heat of life how much they've accomplished together. Just asking yourself this question, then discussing it on a date, and recognizing "how far we've come" can make for a remarkable first *Money Date*. It's moment for you to look back and reflect. Simply doing this can give you the confidence to move forward to your bigger goals and dreams.

The truth is that the number-one reason people stop trying at work and in life is that they have set themselves up for failure by deciding that

nothing less than perfection is acceptable. The truth is that perfection does not exist. The key to living smart and finishing rich is to regard the pursuit of progress as a journey—a journey that you enjoy along the way by making sure to celebrate the small victories as well as the big ones **together.**

THREE WORDS THAT MAKE A DIFFERENCE

It's now time for the two of you to continue your journey together by living in line with your values and making your dreams and financial goals a reality. We've completed our nine steps together. But I want to leave you with a thought that I think is critical. Money may be important, but it is not the be-all and end-all. The greatest gifts we human beings can receive are life and love. You and your partner right now have both, and that's something no amount of clever purchasing or investing can get anyone.

Often, in our pursuit of goals and wealth, we lose sight of what matters most. Life is short, and sometimes it gets taken away from us before we realize how special it is. Insurance merely provides money to the people we love; it doesn't bring us back. If you are in a relationship with someone right now—if you've found that special person with whom to share your life and love—then you are truly blessed, because you've overcome one of the hardest challenges there is. Compared to that, this money stuff is actually pretty easy—especially now that you have the knowledge to do it right.

So take some time to relax. *Smart Couples Finish Rich* is not about the two of you changing each other and learning how to sacrifice. It's about growing with each other and loving life together. You don't have to stop having fun to live and finish rich. In fact, the more fun you have on this journey we call life, the more you are guaranteed to live and finish rich.

With that in mind, take a few moments to stop and think about why it is you love your partner so much. Remember why and how you fell in love and what it is that made this person so special to you. You might consider taking 15 minutes to put this in writing. But whether you do or do not put

it in writing, take a few minutes and let your partner know how much you really love him or her and why. The three words "I love you" can never be heard enough. We've got a serious "I love you" deficiency in this country and the best place to start fixing it is at home. So right now give a dose of "I love you" to your partner, to your parents, to your friends, and especially to your kids, if you have any. You'll feel better and you might just change the life of someone you care about forever.

Finally, remember that this journey we call life is a gift. It shouldn't have to take losing someone you love, or becoming deathly ill yourself, to appreciate it. My hope for you is that you start living with all the passion you have deep down inside of you. You know, in five years, you can either be five years older or five years older living with more passion, living more richly, and being closer to finishing rich. Ultimately, the choice is yours, and it will be determined by what you do, not what you want. I hope in some small way this book and our time together has helped the two of you to look at your lives and get excited about your future again. Really going for your dreams takes strength, and I know deep in my heart that you both have that strength.

Until we meet again along the journey…have fun and live rich!

ACKNOWLEDGMENTS FOR THE UPDATED EDITION

I was finishing up this book on a Saturday. My kids, Jack and James, asked me where I was going. I said, "guys, I'm headed in to the office to finish the update of *Smart Couples Finish Rich*." "You're updating another book?" Jack asked. "Yes," I replied. "People seem to have really appreciated the update to *The Automatic Millionaire*, so I'm doing updates to my other books." Jack said, "Well, that's cool, Dad. I have a soccer game at five. Be home, okay?" And I said, "You got it, buddy—thanks for understanding." And now I'm typing these final pages.

The truth is that I can't believe I'm getting the privilege to update this book and re-release it after 17 years. The years have flown by. *Smart Couples Finish Rich* was my second book. I never imagined then that I would write 10 more books within a decade, much less have more than 7 million books in print around the world. Every day I pinch myself that what started off as a dream to teach a million people to be smarter with their money came true. None of this would have been possible without YOU, my readers, my community, my friends. You made it possible for me to keep doing what I love. You shared it. And then you came back for more. I have tried each year to give you more goodness, and ways to live and finish rich, and I sincerely hope that I have had a positive impact on your life. So to my readers, YOU first and foremost, THANK YOU! And thank you to the many couples who offered their success stories for this book—I so appreciate your sharing with me your personal journeys and taking the time to write to me.

I also want to thank my publisher for supporting this update, specifically Roger Scholl, my editor, for his hard work on this updated edition. Thank

you, Roger! And to my team at NMSG, who crashed out the production of this book—THANK YOU. A special thank-you to Ginny Carroll, who read every word of this and made it stronger. We did it. I owe a special thank-you to Oprah Winfrey, and her amazing team at Harpo, who invited me to do a show after *The Automatic Millionaire* show, called *How to Become a Millionaire Couple*. That show helped us reach millions more and propelled this book to become the #1 paperback business book of the year! To my agent, Jan Miller—without you none of this would ever have happened. Thank you—I adore you! To my attorney, Stephen Breimer, there are simply no adequate words ever; thank you for all you have done during my career. You are a true angel. To Allan Mayer: we worked on this and nearly a dozen other books. You were and are a dear friend as a writing partner. Thank you for your wise editing.

To my team at AE Wealth Management, and to our co-founders, Cody Foster, David Callanan, and Derek Thompson. Thank you for encouraging me to come join the ride with you to build one of America's fastest-growing Registered Investment Advisors, or RIAs. As I write this, we have more than 215 advisor office partners and 345 advisors, with over $2 billion in assets under management and growing. Thank you to our team of licensed advisors who are now teaching *Smart Couples, Smart Retirement* seminars around the country (the new seminar based on this book). You're going to be teaching thousands of couples every year to be smarter in retirement, and that is simply awesome. Thank you for your hard work and dedication.

Finally, and closest to my heart, I want to thank my blessing of a family. I live to be a dad and a husband. To Alatia, my wife, who makes every day better: I love you with all my heart. Thank you for loving us so much. Thank you for picking me up when I get down and for dancing with me when I want to celebrate. You are my best friend and soul mate. You make every day fun. You make everything better. Most important, you give me the best hugs. To my sons, Jack and James: Boys, you've made being a dad

the greatest joy of my life. Nothing else comes close to the happiness I have received by simply being your dad. You are the best two kids a dad could ever ask for, and you also give really, really good hugs. I wish for you everything you wish for yourselves. I hope you will always go for your dreams, even if they seem impossible. Be nice to others (and yourselves), care more than others expect you to—and do the right thing even when no one else is watching. Your life will be richer as a result. To my parents, Bobbi and Marty Bach, no son could be luckier than I am. You are the parents that kids dream of having. You still show up and cheer for me in my middle age. I love you. Finally, to my insanely cool modern family. My amazing first wife, Michelle, and her totally incredible husband, Gene, and daughter, Charlotte—I can't believe how lucky we are for "Team Jack" and for our family's love. Michelle, you were a huge part of this original book. Thank you for being not just willing to remain in it but happily encouraging me to leave it as is (and, thanks to you, I did).

David Bach
New York

ACKNOWLEDGMENTS FOR THE ORIGINAL EDITION

Many people made it possible for *Smart Women Finish Rich* and *Smart Couples Finish Rich* to become national bestsellers. Only because of the support and love of the following have I been able to take this incredible journey and reach so many people…

First, to the readers of *Smart Women Finish Rich* and *Smart Couples Finish Rich*: thank you, thank you, thank you. The best part of writing a book is hearing from readers who have been motivated to take action. To those of you who have e-mailed me or sent me letters, thank you for taking the time to let me know how I touched your lives. The knowledge that I've reached so many of you is what makes all this effort of writing, speaking, and traveling worth it.

To Suzanne Oaks, my editor at Broadway Books: we did it! Thanks again for your incredible feedback and support. Your ideas are always right on the money. To Claire Johnson, thank you for your patient help in putting the pieces of this updated book together. To my PR gurus Heidi Krupp and David Drake, thank you both for your tireless and incredible help promoting both of my books. Your teamwork on my behalf has been invaluable and I'm eternally thankful. To the outstanding sales team of Broadway, thank you for supporting my book, and selling it into the markets where my seminars take place. This extra effort has led to tens of thousands of additional book sales.

To Allan Mayer: working with you on these two books has truly been a joy. We are so "in synch," and I am so grateful to have you as a collaborator. Thanks for always doing what you say you're going to. You are a class act.

An enormous thank-you goes to my team at Van Kampen Investments. As a result of our efforts, we have so far reached more than 250,000 women with Smart Women Finish Rich™ seminars—and we are just getting started! As we roll out Smart Couples Finish Rich™ seminars coast to coast in 2002, we will undoubtedly help thousands more. To Jack Zimmerman, Dominic Martellaro, Lisa Kueng, Scott West, and Gary DeMoss: thank you for believing in me and the power of this project. To the entire team of world-class wholesalers at Van Kampen who have collectively done thousands of seminars and to the thousands of financial advisors who now present my FinishRich™ seminars worldwide, thank you for delivering the message.

To Larry Rifkin at Connecticut Public Television: thank you for working so hard to bring my *Smart Women Finish Rich* special to PBS. A public television show needs an underwriter, and I was very fortunate to have three. First, thank you to Rick Sapio, the tireless founder of Mutuals.com. I will be forever grateful to you for being the lead underwriter. A big thank-you also goes out to our other underwriters, Women.com and Van Kampen Mutual Funds.

To my world-class agent, Jan Miller: I will always be indebted to you for your guidance and shrewd deal-making. To Shannon Miser Marvin: thank you for returning all my calls, dealing with the contracts, and handling the hundreds of details that always need to be nailed down. You are the best!

To Harry Cornelius, thank you for your outstanding expertise in negotiating my financial service contracts. To Stephen Breimer, thank you for your excellent legal advice. I am truly grateful to you two gentlemen for helping me take FinishRich™ Inc. to the next level.

I also want to express my gratitude to my many mentors and coaches. To Bill Bachrach, the author of *Values-Based Financial Planning*: I will always be grateful for your TAC program and your permission to use your values conversation in *Smart Women Finish Rich*. To Bill Phillips, the author of *Body for Life*: your book has done amazing things to improve

not only my health but Michelle's as well. To Dan Sullivan: thank you for *Strategic Coach* and for *Strategic Couples*. Your coaching program has dramatically changed the quality of our lives. To Tony Robbins: you are truly a world-class leader and coach. Thank you for creating "Date with Destiny"—it is because of you and your programs that I have been able to go for my dreams.

To Kathleen Price, my unbelievable "right hand" at The Bach Group: I will be forever appreciative for all that you do. Thanks for keeping The Bach Group growing, the clients happy, and me in good spirits while I write, speak, travel, and manage money—all at the same time. To the rest of The Bach Group team—Marty Bach, Emily Bach, Tom Moglia, Jeff Borges, Sharon Hundal, Geraldine Kobayashi, Leonore Pearsall, Patricia Brown—thank you all for making The Bach Group such a world-class money management group.

To my incredible parents, Bobbi and Marty Bach, words cannot express how much I love you both. I am truly grateful for your never-ending love and encouragement. Your belief in my abilities and your constant "cheering" through the good as well as the challenging times have allowed me to keep pushing forward. Thank you for providing me with an example of what a great marriage is and what it means to be a Smart Couple that works together to succceed in life.

To my sister Emily, congratulations on all your success. Thanks for doing "Smart Women Finish Rich" seminars and sharing the message. Most important, thanks for being such an amazing sister and such a great friend. To my brother-in-law Tom Moglia: thanks for making my sister so happy and being an all-around great guy.

To my "second family," Joan, Bill, Nana, and Michael: thanks for your constant love and encouragement and telling all your friends about my book. Most important, to Joan and Bill: thanks for having Michelle and letting me marry her!

To my incredible group of longtime friends—Betsey and T.G. Fraser, Jeff

and Caroline Guenther, Donna and Jeff Odiorne, Jenny and Bill Holt, Steve Jones, Elliot Blumberg, David Kronick, Jeff and Dawn Adams, Tom Cooper, Andrew and Belinda Donner, Karen and Drew Warmington, Adam and Julie Young—thanks for your love and for being the best friends a guy could ask for.

Last, to my grandmother Rose Bach: thank you for being my original inspiration for writing *Smart Women Finish Rich*. I love you and miss you every day. Thank you for rooting for me up in heaven.

I am grateful to all of you from the bottom of my heart.

David Louis Bach

San Francisco, California

APPENDIX 1

WHERE DOES THE MONEY *REALLY* GO?

One of the most important parts of getting your financial life together is having a solid grasp on exactly what your current cash flow is. To do this, use the worksheet that follows.

To download a printable PDF of the Appendix, go to http://rhlink.com/9780525572947amain.

First, determine how much you earn . . .

Your Income

Wages, salary, tips, commissions, self-employment income	$_____
Dividends from stocks, bonds, mutual funds, savings accounts, CDs, etc.	$_____
Income from rental property	$_____
Income from trust accounts (usually death benefits from an estate)	$_____

Alimony, child support, Social Security widows benefits	$_____
Social Security benefits	$_____
Other income	$_____
TOTAL MONTHLY INCOME	$_____

Second, determine what you spend

Your Expenses

Taxes

Federal income taxes	$_____
State income taxes	$_____
FICA (Social Security taxes)	$_____
Property taxes	$_____
TOTAL TAXES	$_____

Housing

Mortgage payments or rent on primary residence	$_____
Mortgage payment on rental or income property	$_____
Utilities	$_____
Homeowners or renters insurance	$_____
Repairs or home maintenance	$_____
Cleaning service	$_____
Television cable	$_____
Home phone	$_____
Landscaping and pool service	$_____
Monthly Internet service	$_____
Condo or association dues	$_____
TOTAL HOUSING	$_____

Auto

Car loan or lease	$_____
Gas	$_____
Car insurance	$_____
Car phone	$_____
Repairs or service	$_____
Parking	$_____
Bridge tolls	$_____
TOTAL AUTO	$_____

Insurance

Life insurance	$_____
Disability insurance	$_____
Long-term-care insurance	$_____
Liability insurance (umbrella policy)	$_____
TOTAL INSURANCE	$_____

Food

Groceries	$_____
Food outside of home	$_____
TOTAL FOOD	$_____

Personal Care

Clothing	$_____
Cleaning/drycleaning	$_____
Cosmetics	$_____
Health club dues and/or personal trainer	$_____
Entertainment	$_____

Country club dues	$_____
Association memberships	$_____
Vacations	$_____
Hobbies	$_____
Education	$_____
Magazines	$_____
Gifts	$_____
TOTAL PERSONAL CARE	$_____

Medical

Health-care insurance	$_____
Prescriptions and monthly medicines	$_____
Doctor or dentist expenses	$_____
TOTAL MEDICAL	$_____

Miscellaneous

Credit-card expenses	$_____
Loan payments	$_____
Alimony or child support	$_____
Anything you can think of that I missed!	$_____
TOTAL MISCELLANEOUS EXPENSES	$_____
TOTAL MONTHLY EXPENSES	$_____

Murphy's Law Factor

Take the total expenses and increase by 10 percent	$_____
TOTAL INCOME	$_____
Minus total monthly expenses	$_____
Net cash flow (available for savings or investments)	$_____

APPENDIX 2

FINISHRICH INVENTORY PLANNER™

To download a printable PDF of the Appendix, go to http://rhlink.com/9780525572947amain.

STEP ONE: FAMILY INFORMATION

Client Name_____

Date of Birth_____ Age_____ Nickname_____

Spouse's Name _____

Date of Birth_____ Age_____ Nickname_____

Mailing Address_____

City_____State___Zip_____Home Phone _____

Work Phone _____Fax _____ E-mail _____

Spouse's Work Phone _____Fax _____E-mail _____

SS#_____ Spouse's SS#_____

Employer_____

Job Title_____

Spouse's Employer_____

Spouse's Job Title_____

Are you retired? Yes ____Date Retired_____No____Planned Retirement Date_____

Is your spouse retired? Yes____Date Retired_____No___Planned Retirement Date_____

Marital Status: Single____Married____Divorced____Separated____ Widowed_____

Children

Name | Date of Birth | SS#

1._____

2._____

3._____

4._____

5._____

Dependents

Do you have any family members that are financially dependent upon you or could be in the future?

(i.e. parents, grandparents, adult children, etc.) Yes ____ No____

Name 1. _____ Age _____

Relationship_____

Name 2. _____ Age _____

Relationship_____

Name 3. _____ Age _____

Relationship_____

Name 4. _____ Age _____

Relationship_____

Name 5. _____ Age _____

Relationship_____

STEP TWO: PERSONAL INVESTMENTS (DO NOT INCLUDE RETIREMENT ACCOUNTS HERE)

Cash Reserves

List amount in banks, savings & loans, and credit unions

Name of Bank Institution	Type of Account	Current Balance	Interest Rate
Example: Bank of America	Checking/Savings/Money Market	$10,000.00	2%
1.			
2.			
3.			
4.			
5.			

Fixed Income

List fixed-income investments

Example: C.D., Treasury Bills, Notes, Bonds, Tax-Free Bonds, Series EE Savings Bonds	Dollar Amount	Current %	Maturity Date
1.			
2.			
3.			
4.			
5.			

Stocks

Name of Company No. of Shares Price Purchased Approx. Market Value Date Purchased

1._____

2._____

3._____

4._____

5._____

Do you have stock certificates in a security deposit box? Yes _____ No ____

Mutual Funds and/or Brokerage Accounts

Name of Brokerage Firm/ Mutual Fund No. of Shares Cost Basis Approx. Market Value Date Purchased

1._____

2._____

3._____

4._____

5._____

6._____

Annuities

Company Annuitant/Owner Interest Rate Approx. Market Value Date Purchased

1._____

2._____

3._____

Other Assets (i.e., business ownership, etc.) Approximate Market Value

1. _____ $ _____

2. _____ $ _____

3. _____ $ _____

STEP THREE: RETIREMENT ACCOUNTS

Are you participating in an Employer Sponsored Retirement Plan?
(These include Tax-Deferred Retirement Plans such as 401(k) Plans and 457 Plans) Yes _____ No _____

Company where your money is Type of Plan Approximate Value % You Contribute

You:

1. _____ $ _____

2. _____ $ _____

3. _____ $ _____

Spouse:

1. _____ $ _____

2. _____ $ _____

3. _____ $ _____

Do you have money sitting in a company plan you no longer work for?

Yes _____ No _____ Balance _____When did you leave the company?_____

Spouse:

Yes _____ No _____ Balance _____When did you leave the company?_____

Self-Directed Retirement Plans

Are you participating in a retirement plan? (These include IRAs, Roth IRAs, SEP-IRAs, SAR-SEP IRAs, and SIMPLE plans)

Name of institution where your money is — Type of Plan — Approximate Value

You:

1._____

2._____

3._____

4._____

5._____

Spouse:

1._____

2._____

3._____

4._____

5._____

STEP FOUR: REAL ESTATE

Do you rent or own your own home?

Own _____ / Monthly mortgage is _____ Rent _____ / Monthly rent is _____

Approximate value of primary home $ _____Mortgage balance $ _____=

Equity in home_____Length of loan ___Interest rate of loan ___Is loan fixed or variable?____

Do you own a second home?

Approximate value of second home $ _____Mortgage balance $ _____=

Equity in home_____Length of loan ___Interest rate of loan ___Is loan fixed or variable?____

Any other real estate owned?

Approximate value $ _____Mortgage balance $ _____= Equity in home_____Length of loan ___Interest rate of loan ___Is loan fixed or variable?____

STEP FIVE: ESTATE PLANNING

Do you have a will or living trust in place? Yes _____ No ___ Date it was last reviewed_____

Who helped you create it? Attorney's name_____

Address_____

Phone _____ Fax _____

Is your home held in the trust or is it held in joint or community property? _____

Risk Management/Insurance

Do you have a protection plan in place for your family? Yes _____ No _____

Life Insurance Company	Type of Insurance (i.e., Whole Life, Term, Variable, etc.)	Death Benefit	Cash Value	Annual Premium
1.				
2.				
3.				

Tax Planning

Do you have your taxes professionally prepared? Yes _____ No _____

Name of accountant/CPA _____

Address _____

Phone _____ Fax _____

What was your last year's taxable income?_____Estimated tax bracket?_____%

STEP SIX: CASH FLOW

Income

Your Est. Monthly Income _____ Estimated Annual Income _____

Spouse's Est. Monthly Income _____ Estimated Annual Income _____

Rental Property Income: Monthly _____ Annually_____

Other Income (i.e., partnerships, Social Security, pensions, dividend checks, etc.)

	Type of Income	Monthly	Annually
1.			
2.			
3.			

Expenses

Monthly Estimated Expenses $_____Annual Estimated Expenses $_____

What do you earn a month after taxes? $ _____

What do you estimate you spend? - $ _____

Net Cash Flow = $ _____

STEP SEVEN: NET WORTH

Total Assets $ _____

Total Liabilities - $ _____

Estimated Net Worth = $

APPENDIX 3

PURPOSE-FOCUSED FINANCIAL PLAN™

The additional Purpose-Focused Financial Plan worksheets that follow are for your partner to fill out and for the two of you to fill out as a couple. The guidelines on this page will help you both think about five key goals that you each want to accomplish over the next 12 months.

To download a printable PDF of the Appendix, go to http://rhlink.com/9780525572947amain.

PURPOSE-FOCUSED FINANCIAL PLAN ™

	TOP 5 VALUES	TOP 5 FINANCIAL GOALS	MAKE SPECIFIC, MEASURABLE, PROVABLE	48-HOUR PLAN WHAT ACTIONS WILL YOU TAKE IN THE NEXT 48 HOURS?	ENLIST HELP WHO WILL YOU SHARE YOUR GOALS WITH?	START & FINISH LINE WHEN WILL YOU START? WHEN WILL YOU FINISH?
	Example: security	increase net worth by 10% in 2018	increase contributions to 401(k) from 6% to 12%	call benefits person at work; change contributions plan by Friday	call Pete (financial advisor) to review investment options in 401(k) plan; ask him about Roth IRA	start tomorrow, Monday, Jan. 15, 2018; finish by Friday, Jan. 19, 2018
1.						
2.						
3.						
4.						
5.						

PURPOSE-FOCUSED FINANCIAL PLAN ™

	TOP 5 VALUES	TOP 5 FINANCIAL GOALS	MAKE SPECIFIC, MEASURABLE, PROVABLE	48-HOUR PLAN WHAT ACTIONS WILL YOU TAKE IN THE NEXT 48 HOURS?	ENLIST HELP WHO WILL YOU SHARE YOUR GOALS WITH?	START & FINISH LINE WHEN WILL YOU START? WHEN WILL YOU FINISH?
	Example: security	increase net worth by 10% in 2018	increase contributions to 401(k) from 6% to 12%	call benefits person at work; change contributions plan by Friday	call Pete (financial advisor) to review investment options in 401(k) plan; ask him about Roth IRA	start tomorrow, Monday, Jan. 15, 2018; finish by Friday, Jan. 19, 2018
1.						
2.						
3.						
4.						
5.						

HOW TO REACH US

…go to *DavidBach.com*

If you would like more information about *Smart Couples Finish Rich* or other programs we have developed, please contact us at *www.DavidBach.com*. There you will find information on:

- My free online *Sunday* newsletter (goes out on Sundays when I write it)
- How to attend a Smart Couples Smart Retirement™ and/or Smart Women Finish Rich™ Seminar
- How to hire David Bach to speak at your next event
- For financial advisors: How to become licensed to teach FinishRich™ Seminars
- *And lots of other cool stuff for you to live and finish rich*

To everyone who has written and e-mailed me…THANK YOU from the bottom of my heart…I am incredibly grateful and humbled by the amount of letters and e-mails I have received thus far. If this book has made a significant impact on you, please know that I would like to hear about your successes!

Maybe your personal story (if you give us permission) will become part of a future edition. To share success stories, e-mail us at success@finishrich.com. I can't promise a reply, but I can promise I will read it. Also visit me at facebook.com/davidbach.

Lastly, I am no longer taking financial-planning clients and, due to legal

liabilities, I unfortunately cannot answer personal financial questions. If you have specific financial questions, I strongly recommend meeting with a professional.

ABOUT THE AUTHOR



David Bach has helped millions of people around the world take action to live and finish rich. He is one of the most popular and prolific financial authors of our time, with eleven consecutive national bestsellers, nine *New York Times* bestsellers, including two consecutive #1 *New York Times* bestsellers, *Start Late, Finish Rich* and *The Automatic Millionaire*, as well as the national and international bestsellers *Smart Couples Finish Rich; Smart Women Finish Rich*; *Debt Free For Life*; *Start Over, Finish Rich*; *Fight for Your Money*; *Go Green, Live Rich*; *The Automatic Millionaire Homeowner*; *The Finish Rich Workbook*; and *The Automatic Millionaire Workbook*. Bach carries the unique distinction of having had four of his books appear simultaneously on the *Wall Street Journal*, *Businessweek*, and *USA Today* bestseller lists. In all, his Finish Rich books have been published in more than nineteen languages, with more than 7 million copies in print worldwide.

Bach's breakout book, *The Automatic Millionaire*, was the #1 business book of 2004, according to *Businessweek*. It spent thirty-one weeks on the *New York Times* bestseller list and was simultaneously number one on the

bestseller lists of the *New York Times*, *Businessweek*, *USA Today*, and the *Wall Street Journal*. With more than 1.5 million copies sold, this simple and powerful book has been translated into fifteen languages and has inspired thousands around the world to save money automatically.

Bach is regularly featured in the media. He has been a regular contributor to NBC's *Today*, appearing on ithe show over one hundred times. He appeared six times on *The Oprah Winfrey Show* to share his strategies for living and finishing rich and has made regular appearances on NBC's *Weekend Today* show, CNN's *Larry King Live*, ABC's *Live with Regis and Kelly*, *The View*, CBS's *Early Show*, ABC News, Fox News, Fox Business, PBS, and CNBC. He has been profiled in many major publications, including the *New York Times*, *Businessweek*, *USA Today*, *People*, *Reader's Digest*, *Time*, *Financial Times*, the *Washington Post*, the *Wall Street Journal*, the *Los Angeles Times*, the *San Francisco Chronicle*, *Working Woman*, *Glamour*, *Family Circle*, and *Redbook*. He has been a contributor to *Redbook* magazine, *Smart Money* magazine, Yahoo! Finance, AOL Money, and Oprah.com.

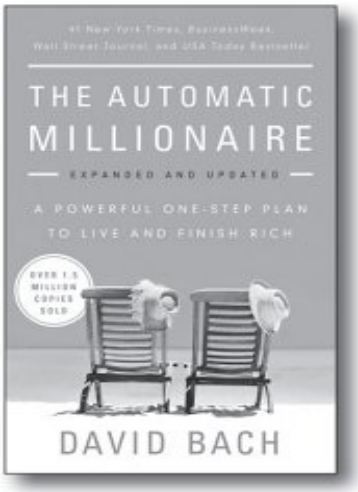
David Bach is the creator of the Finish Rich® Seminar series, which highlights his quick and easy-to-follow financial strategies. More than half a million people have learned how to take financial action to live a life in line with their values by attending his Smart Couples, Smart Retirement™, Smart Women Finish Rich®, Smart Couples Finish Rich®, and Find the Money seminars, which have been taught in more than 2,000 cities throughout North America by thousands of financial advisors.

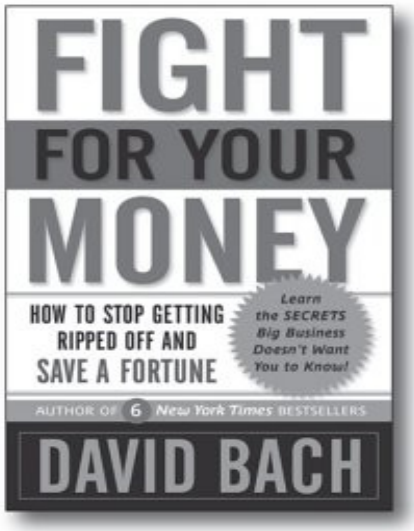
An internationally renowned motivational and financial speaker, Bach regularly presents seminars for and delivers keynote addresses to the world's leading financial service firms, Fortune 500 companies, universities, and national conferences. He is the founder and chairman of FinishRich Media, a company dedicated to revolutionizing the way people learn about money. Prior to founding FinishRich Media, he was a senior vice president of Morgan Stanley and a partner of The Bach Group, which

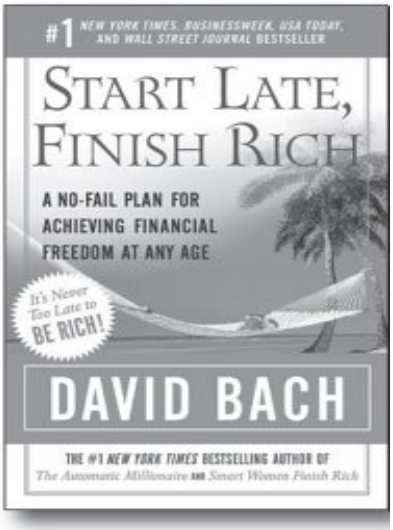
during his tenure (1993 to 2001) managed more than half a billion dollars for individual investors. He was the vice chairman of a nationally recognized RIA with $15 billion under management from 2014 to 2015. Bach is the co-founder and current Director of Investor Education of *AE Wealth Management*, one of the country's fastest-growing RIAs with more than 215 advisor partner offices and 345 advisors (as of October 2017).

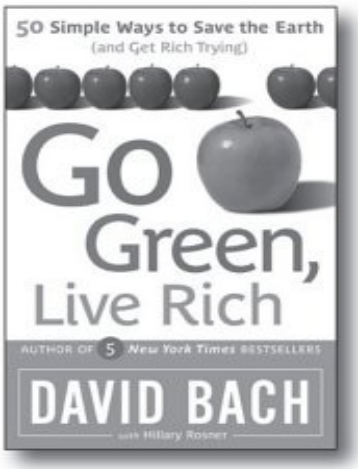
David Bach lives in New York with his family. Please visit his website at www.davidbach.com.

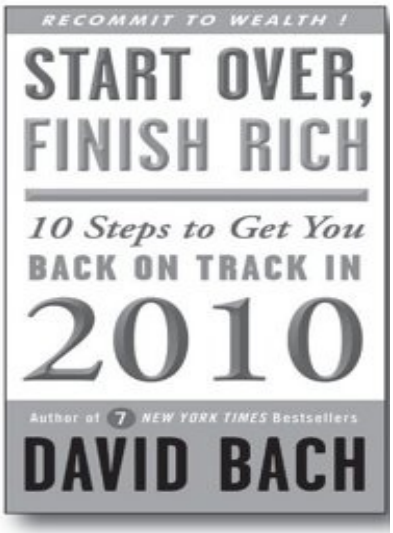
The bestselling series by
DAVID BACH





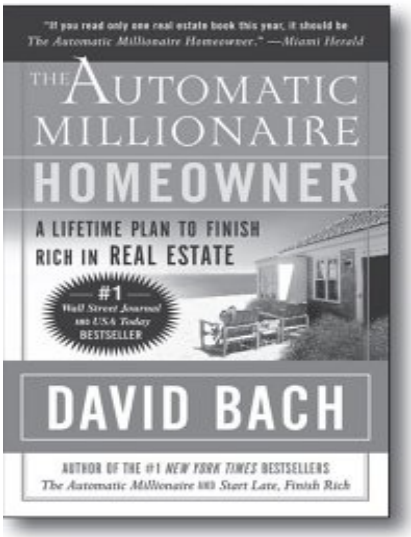


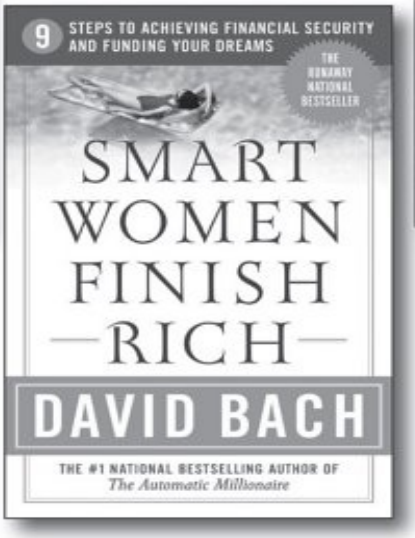


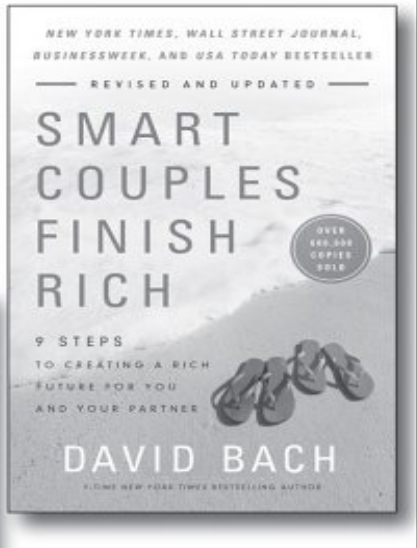


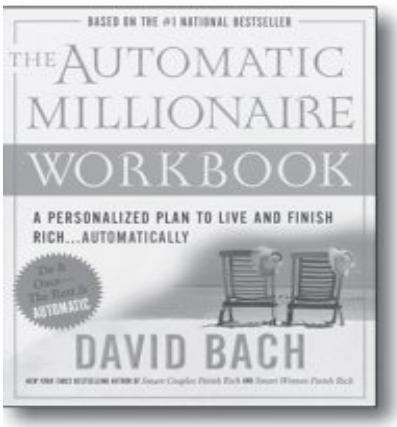
No matter where you start,
David Bach can help you Live and Finish Rich!

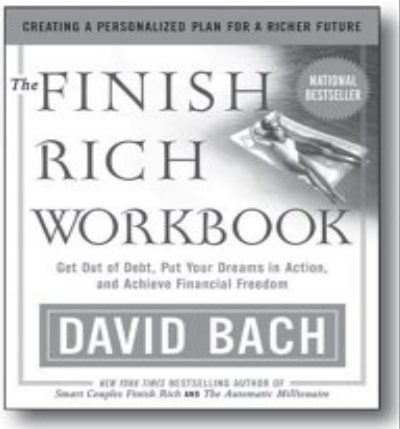
with over 7 MILLION books in print!











THE FINISH RICH BOOK SERIES

CURRENCY

FinishRich.com

facebook.com/DavidBach
twitter.com/AuthorDavid Bach

FinishRich.com

facebook.com/DavidBach

twitter.com/AuthorDavid Bach



What's next on your reading list?

Discover your next great read!

Get personalized book picks and up-to-date news about this author.

Sign up now.