



August 2006

Put an end to money stress!

Be smarter about your finances, whatever your age or stage.

By Laura Rowley

I've always been a worrier when it comes to money. In my 20s, I fretted over how I'd feed myself and pay the oversize rent for my undersized New York City apartment on my even smaller salary. By my 30s, I'd gotten the food and shelter thing down but suspected that a chimp selecting at random could choose a more savvy mix of 401(k) funds than I. Now that I'm 41, money is on my mind more than ever, thanks to three kids who will be ready for college in a decade and the fact that I'd like to be able to stop working someday. I *am* sleeping easier, though, mostly because I've learned what it takes to set realistic goals and avoid common pitfalls. You can, too. SELF talked to women in their 20s, 30s and 40s about their money concerns. Use the advice we picked up to enrich your life and your bank account, and ease your angst for good.

In your 20s

You may be struggling to stretch a meager salary, but the picture isn't all bleak.

Twentysomethings wield a financial weapon their fortysomething bosses lack: time. Save even a miniscule amount of money now and it will grow exponentially in the decades to come. It's also wise to chip away at debt and boost your earning potential. How? We've got some ideas:

Goal 1 Start an SOS fund. Saving may seem impossible, especially if you're living paycheck to paycheck. Yet now is when it's *most* crucial to give yourself a cushion—if you're laid off and have to depend on plastic, it could take years to dig out of debt. To be safe, aim to stash away three months of living expenses. Elizabeth Dufner, 23, a teacher in Yardley, Pennsylvania, moved back home to help make this happen: “My parents are easy to live with, and I saved \$4,000 in 12 months,” She says. Of course, you don't need to return to the nest to build your nest egg. Instead, transfer whatever you can afford into an online savings account each month. (Go to BankRate.com for the best deals.) Add extra cash to your reserve fund by throwing singles in a tin at the end of each day. Toss the kitty in the bank when it's full, then watch your sense of security grow.

Goal 2 Ditch debt. Like the majority of women in the 20s, Dufner finished college with a big fat I.O. to her U. “I owed \$28,000,” she says. According to the student loan firm Nellie Mae, the average college grad who borrows money enters the real world with \$18,900 in loans and \$3,400 in credit card debt. Your mission: to pay down debt ASAP, because the interest you have to hand over to creditors snowballs over time. For every dollar you earn after expenses and

budgeted extras, put 75 cents in your SOS fund and 25 cents toward debt. Tackle the plastic by paying at least 10 percent on the card with the highest annual percentage rate and the minimum on the rest. Once you've taken care of the card with the steepest interest, pay 10 percent toward the next heftiest, and so on. The same applies to loans. Dufner should funnel extra payments to her 8 percent student loan and pay the minimum on her 2.8 percent loan.

Goal 3 Pump up your paycheck. "I figured my starting salary was set in stone," Dufner says. In fact, by not asking for more, you may cheat yourself out of hundreds of thousands of dollars, according to Linda Babcock and Sara Laschever, coauthors of *Women Don't Ask* (Princeton University Press). Hard to believe? If, at 22, you get an offer for \$25K and negotiate it to \$30K, then put the difference into an account earning 3 percent interest every year, you'll accrue \$568,834 by age 60 (assuming you receive an annual raise of 3 percent and increase your \$5,000 savings accordingly). To be an ace negotiator, give reasons why you're worth more than average. If your employer won't budge, ask for a review with the possibility of a raise at six months instead of a year, or see whether you can be eligible for a bonus tied to a specific project.

Be savings smart Put \$25 per paycheck into a bank account earning 4.6 percent interest. In five years, you'll have earned \$3,316 after taxes to put toward your SOS fund.

In your 30s

When kids and big purchases such as real estate enter the mix, managing your finances can feel like a juggling act. Lara Pennington, 38, downshifted to working four days a week at a law firm when her eldest child was born, "but after we paid the nanny and everything else, I was bringing in less than \$1,000 a month!" says the Maplewood, New Jersey, mother of three. Even now that she's switched to working about two days a week to reduce child-care costs, "our monthly expenses still total \$9,000. We shake our heads and wonder how we can make almost \$200,000 a year and yet sometimes end up with \$22 in our checking account," she says. Knowing where your dollars go is key to stopping the black hole syndrome. For 30 days, write down all you spend to see where you can cut back. Then stay on track with the online tools at Mvelopes.com or BetterBudgeting.com.

Goal 1 Plan for retirement. To avoid subsisting on early bid specials later, you'll need to save 12 times your annual income and cut debt now, says Charles Farrell, a financial consultant in Medina, Ohio. That means putting 12 percent of your salary in your 401(k). If your employer doesn't offer one, contribute the \$4,000 annual maximum to an individual retirement account and invest in a mutual fund geared for retirement savings. You can open an IRA with \$100 at the financial services firm TIAA-CREF as long as you invest \$100 a month (TIAA-CREF.org).

Goal 2 Buy a home. Yes, prices are soaring, but real estate is likely to continue gaining value, as long as you plan to stay put for at least five years and stick to a property that is within your means. A year of mortgage payments, taxes and insurance should total no more than 30 percent of your gross income. (Try the *How Much House Can You Afford?* Calculator at BankRate.com) Set aside 5 to 20 percent of the purchase price in cash, as well as 3 to 6 percent for closing costs and fees.

Goal 3 Conserve Cash. To fully finance four years of public university, you'll need to save about \$275 a month from your child's birth until her college graduation. The Penningtons put money in a 529 savings plan where it will grow tax-free and not significantly affect financial aid.

(For info, see SavingForCollege.com.) But while you can borrow to educate your kids, no one will lend you money to retire. So if you can't foot the college bill, feed your 401(k) or Roth IRA. Then aim to save a third of tuition, pay a third out of pocket once your child enrolls and take care of the rest with grants and loans.

Be savings smart Put \$4,000 a year in an IRA earning 8 percent. If you start at 30, by age 65 you'll have \$736,994.

In your 40s

At this stage, you may yearn for wiggle room in your career, say, to study French in Paris. And if you have kids, you're no doubt aware that the biggest withdrawals (for college) are looming. Here's how to get the flexibility you crave along with the cash and peace of mind you need:

Goal 1 Protect your family. Last year, Laure Levin, 46, of Denver, and her husband increased their life insurance, a must for people with dependent children. (The Levins have 5-year old twins.) "My dad survived a bad car accident and it hammered home that life can change in an instant," she says. So update your will and see that you and your partner have death benefits equal to 7 to 10 times your household income.

Goal 2 Live on one salary. Bankruptcies are growing among dual-earning families, says Elizabeth Warren and Amelia Warren Tyagi, authors of *All Your Worth* (Free Press). Why? Couples are relying on two paychecks to cover essentials leaving themselves vulnerable if one income disappears. My own husband and I make do on one salary out of necessity: We work for ourselves, so our incomes vary. In flush years, we allow for more splurges; in lean times, we cut out extras. Allocate the bigger paycheck to mortgage, taxes, utilities, gas, food and insurance; the smaller to savings and luxuries.

Goal 3 Pay off your home. More people are tapping into the value of their homes—refinancing to renovate, pay off credit cards, even take trips. As a result, the Federal Reserve estimates that mortgage debt has grown nearly 75 percent in five years. It's best to avoid cashing out your home equity and here's why: Eliminating your mortgage before you retire frees money for other expenses. Ideally, you'll want to withdraw no more than 5 percent of your retirement savings each year. If your portfolio has lackluster periods, you'll want to take out even less, which won't be an option if you have a mortgage. Still jittery? If money is causing you angst, get advice from a pro through the National Association of Personal Financial Advisors (NAPFA.com).

Be savings smart Make just one extra payment a year on a \$200,000, 30-year, 6.5 percent mortgage and you'll shave six years off your loan and escape nearly \$60,000 in interest. Follow all the advice on these pages and you'll be home free from now on!