

NATIONAL MULTIPLE SCLEROSIS SOCIETY – LOS ANGELES CHAPTER

presents

IMPROVING YOUR FINANCIAL CONDITION IN THE NEW YEAR

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I. OVERVIEW (introduction)

Thank you, operator, and good evening, everybody. My name is Dick Bell and I'm a financial planner in Calabasas ... in the San Fernando Valley. It seems like every other person you meet is somehow involved in financial services ... not necessarily financial planning, however. And that's because of the tremendous overlap in the financial services arena. Remember when insurance agents just sold insurance ... now they sell mutual funds. They're financial planners. Do you have a stock brokerage account with Merrill Lynch? It's a good bet that your broker has a life insurance license and his or her card says "financial planner". Go over to your local Washington Mutual Bank and there will be a desk in the corner where one of their "financial planners" can sell you mutual funds, insurance, annuities, etc.

And is a CPA a financial planner? Absolutely, and you're likelihood of getting a CPA to do this call this close to tax time is one in a billion.

How about an attorney who does estate and tax planning? Absolutely, a financial planner.

Me ... I'm a generalist. My background is from the insurance profession but I have a Masters degree in Financial Services and five professional designations, including the Chartered Financial Consultant and Certified Financial Planner.

I am a past national president of the 18,000 member Society of Financial Service Professionals. It is that organization that has a relationship with National MS Society and our members provide one-to-one financial planning services for National MS Society members. In fact, our Foundation for Financial Service Professionals was presented with the National MS Society "Making a Difference" award at their annual conference in Dallas last October.

I will be the first to tell you I don't have all the answers ... I don't even have all the questions ... but I know where to turn for answers I don't have.

That being said, I hope you have a pen and paper handy because I intend to give you some ideas tonight that will not just improve your financial condition this year ... but for every year in the future.

Plus, you'll be able to write down questions as we go along. There may be some things I say that you would like more information or perspective about.

The game plan is for me to speak for 35-40 minutes and then to open up the phone lines to your questions. It's like listening to talk radio but you're not allowed to call in for the first 35 minutes or so.

Hopefully, you all have my outline and the handouts I'll be referring to so you'll be able to follow along with me ... and it will keep me on track.

II. Two Simple Goals for 2008

You may be familiar with noted author Stephen Covey and his book "The 7 Habits of Highly Successful People". His second chapter is titled: "Begin with the end in mind!" Where are you trying to get to and work backwards from there.

So let's break this all down to two simple goals for 2008. In other words, when this year is over, how will you know if you have been successful financially?

Goal #1 – Have more money in savings and/or investments

Goal #2 – Owe less money to others (have fewer debts)

That's it. That's what we're trying to get to.

These are common goals for people but they never put a plan into action to achieve those goals. We have a deadline ... December 31, 2008. And a goal without a deadline is just a wish.

III. Facing Financial Reality

I heard a speaker say recently that: "If you always do what you've always done, you'll always get what you always got." And another speaker defined the word "insanity" as "doing the same thing again and again, hoping for different results". So, if you're going to improve your financial condition in 2008 ... you have to do something different.

There is only one habit that you will need to meet these goals. And if you already have the habit ... good for you. But the habit is the big success secret in self-

help books like “The Millionaire Next Door”. And that habit is to spend less than you make ... to live beneath your means.

And that starts by facing financial reality. Here are some signs that indicate that you are living above your means.

1. Are you paying late charges for not paying bills on a timely basis?
2. Are your interest charges increasing each month on your credit cards?
3. Is your bank hitting you with bounced check charges or other fees?
4. Are credit card companies increasing your interest rates because of late payments?
5. If you are working, would having a paycheck delayed a few days really cause problems for you?
6. Are you paying only the minimum amount billed on any credit cards?

If you answered “yes” to any of those questions and you would have preferred to have answered “no”, pay attention because we’ll be addressing those issues.

The problem many folks have is in not differentiating between needs and wants. We need a vehicle ... we want a Lexus or BMW.

We need food ... we want steak and lobster.

Our challenge is that the media has convinced us that our wants are really needs. Now most of us face enough financial reality that when we need a car, we don’t even look at the Lamborghinis. And we’re not uncomfortable that such an expensive car is out of our price range. We really don’t feel we’re missing out on anything because a Lamborghini is out of the price range for our neighbors and brothers and sisters, too.

We’ve heard the line: “He has champagne tastes and a beer budget”. Look at most anybody in their mid-60’s and older. They started out working and as young married couples before credit cards were available in 1968. So they developed the habit of living within their means and paying their bills on a timely basis.

However, the ready access to credit cards lets people live beyond their means ... and that’s where we get into trouble.

The importance is to separate wants from needs. And one of the best ways to do that is to shop with a list. If there was ever a bigger impulse store in this country than Costco, I’d like to know about it. The way you control impulse buying is to stick to your list. If you see something that you would want (not necessarily need), do not buy it but write it down on your list. The next time you shop, again make a shopping list and make a conscious decision whether or not you want to

buy that product. In many cases you will determine that you would rather not spend the money.

OK, moving us onward, I want you to visualize something with me. Close your eyes and think of going to the Mall of America in Bloomington, MN. 520 stores. 2.5 million square feet of retail space. You're going to spend the day. Now, there are only three stores that you want to make sure that you visit ... Nordstrom, Eddie Bauer and J. Crew.

We know that if you wander around long enough, you'll come upon those stores. But you're smarter than that. Where do you head first? To a Mall directory, of course. And sure enough, you can locate Nordstrom, Eddie Bauer and J. Crew. But there's something even more important you need to know. While it's nice to know where they are ... it's imperative to know where you are. And that's why you look for the sticker on the directory that says "YOU ARE HERE". If you don't know the You are Here position, knowing where you want to go is of no value.

The same is true with improving your financial condition in 2008. How will you know if you did? You need a basis for comparison. You need a "You Are Here" position. And we're going to call that a financial statement. Just as a business has a statement of its assets and liabilities, you need a similar statement for your personal life.

There are two major categories.

What do I own? What do I owe?

That's it. If you have never done a personal financial statement, I can assure you that the effort required to put one together will be well worth it. I can also assure you that if you are not willing to take the time to do so, you are far less likely to set and reach attainable goals.

So get your pen and paper handy because I'm going to lay out a personal financial statement for you.

The first category is "cash". Under that heading, list individually every savings account, checking account, money market account and CD that you own that you could quickly convert into cash. List them by name, such as Bank of America checking account # 12345678. Next to that, put the dollar amount as of your last statement. For those of you with computer access and knowledge of a spreadsheet program like Excel, this will be easy.

After listing your cash accounts, the next category is "Investments". Do the same thing ... list each mutual fund account or stock holding or annuity. If you have a number of stock holdings with one brokerage firm, such as Merrill Lynch, just put down the total in the Merrill Lynch account. You'll also list any individual

securities you have such as Chevron stock. Again, to the right of the investment, put the value as of the most recent financial statement.

The next category is “Retirement Funds”. I recommend a separate heading since you don’t have access to these monies easily unless you reach a certain age. And here you will list any IRAs, 401(k) plans, pension or profit sharing plans ... and their balances.

The next category is “Real Estate”. Here you will list your primary residence and any other real property you own. Now, when it comes time to put a value next to the entry, I recommend that you use your “basis” in the house ... not what you think the market value is today (which is probably a lot less than it was a year ago). Your basis is what you paid for the house plus any improvement costs through the years. If you haven’t been keeping track of that, go with the purchase price. Oh, I know that you will be underestimating the value of your house but at least the methodology will be the same from year to year.

Notice that as we went down the page from cash, to investments to retirement monies to real estate, our assets became less liquid. In other words, you could not turn them into cash to pay living expenses easily.

I do not include cars, jewelry, furniture on my financial statement at all. In most cases these are depreciating assets and they are difficult to value. So don’t include them.

Now that you have a listing of “what you own” it’s time to list what you “owe”.

The first category will be Credit Cards. List each credit card under this heading and note the amount you owed as of your last statement. In many cases people are afraid to see how much they owe ... closing your eyes real tight will not make the debt disappear. And this is an example of facing reality, uncomfortable though it might be. Oh, while you’re at it, write down the interest rate that you will be charged for not paying the bill in full.

The next category will be “Other Loans”. Don’t include your mortgage here. We’ll get to that. Perhaps you have borrowed from a family member. Perhaps from a finance company. Here is where you list the creditor and the amount you owe. If you have student loans put them under his heading. And, again, list the interest rate you are paying.

The next category will be “Mortgage Loans”. Now you enter your home mortgage and outstanding equity line of credit. Check you last statement. And make sure you put down the interest rate you are paying

The final category will be “other debts”. I may not have covered all the alternatives so we’ll use this as a catch-all.

Now add up what you own. And add up what you owe. Subtract one from the other and “bingo” ... you have a financial statement. You have a “You Are Here” position.

If you have done what I have suggested, you now have a very good handle on where you stand financially. And if you're a little uncomfortable, great, because you're going to have to be uncomfortable to improve your financial condition in 2008. No judgments here. You are where you are. And we all know we could have been better off or worse off, depending on past habits.

Now that you know where you are, you have the basis for comparison next year. I want you to really focus your efforts on just two categories next year, as I said earlier. Getting more money in the bank and reducing your credit card debt.

The Emergency Fund

Ideally, you will build up a chunk of cash in the bank equal to six months of living expenses. Can you imagine how you would feel? Your financial stress would be relieved.

I'm talking about how important it is to have an emergency fund. You see, life happens and it has financial effects. Your hot water heater breaks. You have a flat tire and need to replace it. You have unexpected medical bills. Problems like these are best addressed by having money in the bank. And the only way you can build up this savings is to spend less on your current lifestyle. Start taking \$50 out of each paycheck and have it sent to a credit union. Every time you get an ATM withdrawal, you must take \$10 and put it into a shoe box. And you can't increase your ATM withdrawal to cover that.

(Tell story of couple who could not save)

I can't emphasize enough the peace of mind you will have by having access to cash for an emergency or opportunity. In fact, you will get to the point where you are uncomfortable spending some of your emergency funds and you will work hard to replenish the pot of money.

Where the emergency fund is invested or saved is immaterial. The interest earnings are not as important as the fact that you actually saved the money.

Part of your financial planning strategy for 2008 is to have a budget. You need to know what money you have coming in each month and where it is going. The income part is fairly easy. But you need to go through your bills for the past few

months and list what you are paying each month for mortgage, utilities, cable TV, etc. These are fixed expenses, although they are a little variable.

The list how much you spend on groceries and eating meals outside the house. This can be a surprisingly large category. We don't really notice the \$4 daily at Starbucks until you realize how much that is on a monthly basis.

If you have large bills that are not monthly like property taxes or insurance, make a note of that amount and divide it by 12 months. You should be paying $1/12^{\text{th}}$ of your property tax bill each month ... in advance. Have you any idea how good it feels to have your property tax bill arrive and have the dollars earmarked in savings to pay for it.

As you review where you spent your money the past few months, you will see places where you could have gone without buying something and put that same money into savings.

When you balance your income against your outgo I'm sure you will see that you have a great opportunity to build up some savings if you just focus your efforts.

Now let me go to what Albert Einstein called the "8th Wonder of the World" ... and that is compound interest. Compound interest is where you let your money accumulate somewhere so that the interest earnings themselves earn interest. A classic example of getting compound interest is in a 401(k) plan. Don't touch the money and you will be compounding the growth in the retirement plan.

When I was in college, some of my fraternity brothers in the business school were talking with one of our fathers. The gentleman was president of the Board of Trade in Chicago. One of my friends asked him what he thought about financial leverage ... paying interest with the thought that you could earn more with the money elsewhere. I remember this man, looking at my friend and saying: "Young man. I don't pay interest. I EARN interest." This is a powerful lesson for all of us and a great lesson at age 19. Real estate people are the first to advise you of how smart it is to buy property, borrow money and make a profit when you sell. That doesn't seem to be working out well in this real estate market, does it?

Getting compound interest is the slow but steady way to financial success. And let's face it ... none of us are going to hit the lottery. There is a mathematical rule called the "Rule of 72's". It tells you how long it will take a dollar to double. You divide the interest rate you earn into 72.

(OPTIONAL) Review handout: "How Much Will Your Savings Grow with a Single Deposit"

For example, if you are earning 8% on your money, it will double in 9 years. How important is that. Let's say that you are 31 years old and that you are changing jobs. You have \$10,000 in your 401(k) plan. And it's earning 8% interest. The temptation is to cash it in, pay the 10% penalty for being under age 59 ½ and report the \$10,000 as taxable income. If you did so, you would net about \$6,000 which I'm sure you could find a way to spend. This is one of the biggest mistakes young people make. Assume instead that you let the 401(k) money compound at 8% either in the 401(k) or in a rollover IRA. You have 36 years until you will be age 67, which is the Social Security Normal Retirement Age for somebody who is age 31 today. That means that your \$10,000 will double four times between now and your retirement. Hold up your hand and count on your fingers. In other words, \$10,000 will double to \$20,000 which will double to \$40,000 which will double to \$80,000 which will double to \$160,000. Here's your choice. You can take \$6,000 in cash today or take \$160,000 at age 67. Why isn't somebody pointing this out to people? Compound interest is truly magical.

Let's look at the 8% column. A single deposit of \$1,000 will grow to \$10,063 in 30 years. In 40 years it will grow to \$21,725. Think of compound interest as a snowball rolling downhill. If it rolls 40 times, gathering more snow with each roll, it will add more snow in the last 10 rolls than it did in the first 30 rolls.

(OPTIONAL) Review handout: "How Much Will Your Savings Grow with an Annual Deposit?"

This is why 401(k) plans work. Money is taken out of our checks before we even see it. So we don't miss it. And the money earns compound interest because it's too difficult for us to touch it.

Getting money into retirement plans while you are working is critical for somebody with MS. It is likely that your working career will be shorter than you originally expected. And your medical bills may well be higher.

Another big mistake younger people make is in being too conservative with their retirement investments. Let's assume you have 40 years to let the money compound. Look at the bottom line and see the difference in accumulation you would have if your money earned 10% instead of 8%. You'll have \$486,000 instead of \$164,000. That little 2% difference in earnings gives you a 74% bigger pot of money.

If you have a 401(k) plan where your employer matches your contributions, for heavens sake make sure you put in enough to get all the matching dollars. Often an employer will contribute 50 cents on the dollar on the first 6% of pay. Put in the 6%. Get the 3% match. This is like investing \$100 and having the bank credit your account with \$150 .. before you earn any interest.

Which gets us to the opposite of earning compound interest ... and that is paying compound interest. If you think earning 9% is great, how about earning 18% ... or more. Your bank loves that. How do they get 18%? They're charging you that on your credit card, on average. What's the worst thing you can do with a credit card? Keep your balance increasing each month. You will absolutely kill yourself financially.

(OPTIONAL) Review "Credit Card Payoff"

So one of our two goals is to reduce credit card debt in 2008. Let's start with the obvious. When you are in a hole ... QUIT DIGGING. Stop charging more. Reduce your spending so you can devote money to paying off your credit cards. Take a look at your last month's credit card bills. How much interest did you have to pay? Can you imagine how you would have felt if you had that money in the bank instead? Well, that's where we want you to go.

Here's a strategy for getting out of credit card debt. List your balances from smallest to largest. Now pay at least the minimum required on all cards but direct all extra money you can into paying off the smallest card. And never use it again. That may not be the card with the highest interest rate but you will get a feeling of satisfaction having it paid off. Then devote all the extra money you can toward the next smallest card. You need to stop the compound interest you are paying on credit cards.

Another alternative is to pay the minimum due on each card (plus another \$10) and then focus everything extra into paying off your highest interest card. When it's paid off, cut it up and never use it again.

This method works when you combine it with reduced spending and a strong focus. It's much like a diet ... reducing your intake will help you lose weight faster if you combine it with increasing your exercise. If you're on a diet, can you imagine not weighing yourself? That's how you keep score ... keep track of your progress. Take your financial statement and update it quarterly, starting December 31st. This gets you to face reality four times a year.

Here are some quick tips for saving money.

1. Save small amounts. Save your change.

2. Instead of ordering a Domino's pizza, buy one at your local supermarket and bake it yourself at home for about 1/3 the cost (and no tip). Put the difference into savings.
3. Use coupons when you shop. If you don't shop at a grocery store with a club card, you are really overpaying for food.
4. Have money taken from each paycheck and sent to your credit union.
5. If you are paid every two weeks, base your budget on two paychecks a month. In two months of the year you will get three paychecks. Save those two extra paychecks.

Here are some quick tips for reducing your expenses.

1. Pay your bills on time to avoid late fees. I just got my home phone bill. It was for \$68 if I pay it by April 5. However, if I pay it after April 10 (five days late) it jumps to \$75. That's 8.98% interest for those five days. Over a year, that amounts to 655% interest. I think I'll invest in AT&T. And you thought they eliminated the usury laws in this country.
2. Shop with a list. This absolutely eliminates impulse buying.
3. Agree as a couple to take it easy with your holiday and birthday shopping this year. Too many people get behind starting the first of the year by incurring holiday bills that they did not have cash to pay.
4. Pay cash instead of using a credit card. It has been shown that people who pay with credit cards spend up to 11% more on their lifestyles than those who use cash or debit cards.

Finally, focus your efforts. Keep score on a quarterly basis. As you have success in increasing your savings and reducing your debt, you will be encouraged to keep it up. It's like being on a diet and losing 4 pounds the first week. Nothing succeeds like success.

Two simple goals for December 31, 2008 vs December 31, 2007 are

- More money in savings
- Less money owed

When you can do that, you will have developed some of the habits of highly successful people.

With that, I would like to open this up to any questions you have from around the state. When you call in, just give us your first name and community where you reside so you'll retain your anonymity. Operator, please tell our audience how to call in.

If you would like to speak to a pro bono financial counselor either on the phone or face to face, please call the National MS Society at 303-813-6595 or email them at couplesprogram@nmss.org

Question 1: What should I do with my \$600 or \$1,200 tax rebate this year?

I vote that you earn 18% on it. Direct 100% of that money to reducing your highest interest rate credit card.

Question 2. How can I save to pay large bills in advance?

Let's say you know every year that you will owe \$6,000 in property taxes. And you owe half in December and half in April. That means you need to save \$500 each month. If you get paid bi-monthly, like on the 15th and 30th, have \$250 taken out of each paycheck and sent to a savings account at your credit union. Wouldn't it have been great to have started doing this last November. That way when the bill comes due in December, you can pay both halves of the property tax bill if you want. The goal is to have the money saved ... all of it ... one month before the bill comes due.