

Small Steps to Health and Wealth

Strategy 10 - Meet Yourself Halfway (Wealth)

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If you want to build wealth, trim spending. This doesn't mean you have to go without. Minimize "discretionary" expenses such as meals eaten away from home, clothing and lottery tickets. In other words, don't cut these expenditures out, merely reduce the number of meals eaten out weekly, look for sales on clothing and instead of spending \$20 on lottery tickets spend \$10. Try spending half of what you did before.

Spend less so that you can save more. This strategy of "finding" money to save by reducing small expenses has been referred to as The Latte Factor™ by David Bach in his book *The Automatic Millionaire*. "The Latte Factor" is a trademarked phrase that uses fancy \$4 coffees as a metaphor for all types of frivolous discretionary spending that adds up over time. In the book, Bach describes a former student, Kim, with a \$5-a-day double nonfat latte and nonfat muffin habit. Figuring a 10% annual return on this money, if it were invested instead in a 401(k) with a 50% employer match, Kim, who was 23 at the time, could have about \$1.7 million at age 65.

Financial experts recommend tracking household spending for a month or two to identify "leaks" and to "find" money to save or to reduce debt. Because we spend money daily, most people do

not have an accurate record of where all their money goes by the end of a month. An average person spends money 3 to 5 times a day, or about 120 times monthly. This includes small purchases, such as a pack of gum, as well as larger expenses, such as a mortgage payment, a car payment, or rent.

Many small cash purchases, such as lottery tickets, parking meter money, train tickets, coffee break items, gum, and cigarettes, can add up to considerable monthly amounts. Categorizing expenses will help you see the different areas in which you spend money.

Here are some strategies to "meet yourself halfway:"

- ✓ Every time your salary increases, contribute half to an employer savings plan—and keep half as a pay raise.
- ✓ As soon as a raise becomes effective, sign up to "save half and spend half."
- ✓ At the beginning of each year, mark your paydays on a calendar and identify the months with "extra" paydays and save half of the "extra" income to increase savings or reduce debt.
- ✓ Save at least half of all windfalls (e.g., tax refunds) or use them to pay down outstanding debt.

Action Steps

- Track spending by writing down every cent you spend and then identify daily discretionary expenses and cut them in half.
- Check the websites www.americasaves.org and www.66ways.org for money-saving ideas.
- Institute the "24-Hour Rule." For any expense over \$50, delay spending to give yourself a day to think about it. Ask yourself: "Is this expense a need or a want?" and "How do I plan to pay for it?"

TRACK YOUR SPENDING	
books	\$ 2
groceries	\$ 7
plumbing supplies	\$ 9
10/10 Sarah copy	\$302
10/10 groceries	\$ 12
Jim & Nera's lunch	\$ 30
10/11 mailed books	\$ 17
Brenda MK debut	\$ 9
10/11 Gbung Scrapping	\$ 10
MK order	\$155
10/12 York Water Co.	\$ 81
10/12 mailing envelopes	\$ 36
10/12 printer ink	\$ 10
10/13 McDonald's	\$ 50