The Bank of America Guide to

Making the Most of Your Money

H. Darden Chambliss, Jr.

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Preface

I have admired for a long time the way that Bank of America provides guidance to its customers on personal finance. Their materials are authoritative, helpful, and noncommercial.

So I was enthusiastic when I was approached by an old friend from the days when I was a business writer for the Associated Press, Ron Rhody, now Senior Vice President for Corporate Communications at the bank. He asked me to take the bank's materials, expand on them, and produce a book for the public.

This is it. It is a book designed for anyone who would like to do a better job of managing their personal finances. It's addressed to those who never took the time to master this part of their lives, those just starting out and those suddenly forced by death or divorce to manage money for the first time.

It's based principally on the bank's highly regarded Consumer Information Report series. I also interviewed subject experts at the bank and went to a number of other organizations for information and an additional perspective.

The people at the bank—being bankers, and conservative by nature—were sometimes a little unsure about the casual tone of some of this book. But they held steadfastly to the view that it had to be written in the way that was most helpful to the reader, not bankers.

I also added a psychological dimension, wholly separate from the bank's materials. My source was a clinical psychologist who has done special work on dual-income couples and their problems, including financial management. She is my daughter, Catherine Chambliss, Ph.D, chair of the psychology department at Ursinus College, Collegeville, Pennsylvania. She is the author of *Group Involvement Training* (New Harbinger Publications) and is currently writing a book on dual-earner families. She and her husband, Alan Hartl, also a clinical psychologist, have a private practice, Psychotherapy Associates. They developed the self-tests employed in Chapters 12 and 13 and are responsible for most of Chapter 13.

The discussions on goal-setting techniques that appear in several places, particularly in Chapter 5, "Planning Your Future," are adapted from my experience as a strategic planner. They make use of training I received from an innovative organization in San Francisco, Interaction Associates.

I am greatly indebted to many people for information and advice. I can't mention them all, but there are several I would be remiss not to thank publicly: June Stevens of Reston, Virginia, for hours spent collecting and organizing information from organizations around the country (some of which are listed below); two patient and lucid stockbrokers from Smith Barney, Sheila Kowal of Denver and Greg Venit of Washington, D.C.; realtor Robin Butler of ReMax in Vienna, Virginia (who sold me a condominium in the process); the many people who helped refine and calibrate the psychological quizzes used in the book, including Don and Kay Chambliss of Fresno, California, and evening-class students at Ursinus College; Walter Bussewitz of Rockville, Maryland, a colleague from my days at the Associated Press who is now a chartered financial consultant; two long-time, dear friends who provided advice and encouragement, Ray B. King of Abilene, Texas (district agent of Northwestern Mutual Life) and Barbara Shelton of Norris, Tennessee; and some agreeable critics and guinea pigs, David and Valerie Chambliss, Elisabeth Chambliss, John Hensley, and Blake Chambliss.

In addition, many organizations were helpful with literature and answers to specific questions. Readers will be encouraged to know that there is a plethora of information on personal finance available free or at little cost. Most communities have some form of consumer information service. Help was lavished on us by one, the Office of Citizen Assistance, Consumer Affairs Division, Alexandria, Virginia. Other organizations that were particularly helpful included Investment Company Institute (ICI), 1600 M Street NW, Washington, DC 20036; the American Association of Retired Persons, 1909 K Street, NW, Washington, DC 20006, an excellent source of information on a variety of personal finance subjects; the Credit Bureau, Inc., P.O. Box 4091, Atlanta, GA 30302; the National Association of Realtors, Economics and Research Division, 777 14th Street NW, Washington, DC 20005; International Association for Financial Planning, Two Concourse Parkway, Suite 800, Atlanta, GA 30328; American Council of Life Insurance, 1850 K Street NW, Washington, DC 20006-2284; and the National Foundation for Consumer Credit, 8701 Georgia Ave., Suite 507, Silver Spring, MD 20910.

There is a great deal of information available from the federal government. A series of concise bulletins on specific subjects is available from the Federal Trade Commission, Bureau of Consumer Protection, Washington, DC 20580.

The Consumer Information Center of the General Services Administration, P.O. Box 100, Pueblo, Colorado 81009, publishes a flier listing almost 200 booklets from 43 government organizations. Included are:

- The U.S. Department of Agriculture's comprehensive "Managing Your Personal Finances" (82 pages, about $6)
- An excellent directory of public and private, national, state and local sources of consumer information and help, "Consumer's Resource Catalogue," U.S. Office of Consumer Affairs (91 pages, free)

To all these individuals and organizations, and to the many others I have not mentioned by name, I am truly grateful.

As a final note, I would caution the reader to seek out specific professional advice before making important money decisions. A book like this can help stimulate your thinking and get you asking questions, but it can't replace expert counsel by someone who understands your circumstances.

Darden Chambliss

Introduction: Finding Yourself in This Book

You bought this book looking for help in money matters and we intend to be helpful in a different and special way.

We'll help you find yourself in this book so you can fit the information to your own needs and personality. Our goal is to help you find the answers that work best for you as a unique individual. As we'll emphasize again and again, effective money management consists of making the choices that will give *you* the most satisfaction, with the least stress.

Some people berate themselves because they feel that they aren't putting away as much money as they've been taught they should. Or that their investments aren't growing as fast as they're supposed to. Or that they spend too much money on the wrong things. Or that they ought to be willing to take more risks.

Says who?

The point is that you don't have to let other people's biases—not even those of "experts"—make you question your own desires. Most people who write money-management advice really want you to be conservative, numbers oriented, and basically a saver. They're distressed that most of us are not like that, and much of their advice is designed to protect us from ourselves. In addition, a lot of budget and spending advice operates on the bias that practicality should be the sole criterion, that emotional rewards are suspect.

All of which is one reason why money management is, for some people, a very frustrating pursuit. They don't do it the way people say they should—and even if they did, it wouldn't feel good. Thumbing the pages of a passbook just doesn't cut it for the person who aches for the feel of Corinthian leather.

So the first point to realize is that you can and should match your money management plans to your own characteristics. That reduces the stress of trying to do what doesn't come naturally and frees you from the tension of attempting to divine other people's expectations. When you set out to "get more for your money," you can ask "more *what*?"—and answer that question in terms of the factors that make *you* happy.

Moreover, as you go about the task of implementing a money plan, you'll find that it's easier to follow if it's one you've designed yourself, with an appreciation for where you'll hit rough spots and what kinds of rewards will strengthen your resolve. And what's true for individuals is even more true for couples: it's a lot easier, and more satisfying, to follow a plan if it explicitly accommodates your differences and builds upon the interests and desires you have in common. One partner may require a larger cash cushion than the other to feel comfortable and it's good to resolve this up front. Also, if you both really enjoy an expensive activity, such as dining out and entertaining, you can agree where to sacrifice in other categories to provide money for this.

To help you sharpen your awareness of your own attitudes toward money matters, we have asked the help of the psychologists at Psychotherapy Associates in Collegeville, Pennsylvania. They have developed a test that you can take and score yourself (Chapter 13). You may learn some things about yourself that you didn't know before, or you may merely confirm some assumptions. The test is nonjudgmental, and it may give you a warm feeling to have your own weirdness formally recognized.

For couples, this test can be both entertaining and useful beyond the purposes of this book. Our psychologist consultants encourage partners to take the test independently, then compare answers and discuss the results, especially the differences.

In addition to tailoring this book to reflect your own personality, we take other steps to help you customize it to your particular situation. We offer techniques to help you plan, to think of things that could happen—good and bad—for which you might want to set aside reserves or at least make explicit allowances in your thinking. We devote an entire chapter to sources of advice and information available from experts (Chapter 12). Besides telling you where to go for information, we make some suggestions about ways to deal with experts to make the experience as comfortable as possible. We offer some intimidation insurance and assertiveness psyching.

Throughout the book, we strive to be user-friendly. We avoid jargon, and we try to explain everything fully. We'd rather run the risk of overexplaining than the opposite. If sometimes we seem to state the obvious, don't take offense. There isn't an explanation in the book that at some point or other the author didn't need.

Contents

Chapter One

Budgeting Your Money to Match Your Needs

Budgets are the place to start with money planning. At a minimum, budgets should at least give you a way to organize your money activity and understand it better. But they can do a lot more.

Budgets can help you direct your money to the places that will give you the greatest satisfaction.

They can boost your self-discipline, giving you clear targets, a way of keeping score, and rewards for success.

They can help ensure that money is there when you need it.

They can be research tools, helping you gather information to make better spending decisions. (How much money would you really free up for other purposes if you got rid of that other car?)

They can be powerful aids to your investment strategies, helping to make sure you have the maximum amount of money available for extra return through investments. For instance, good budget control can ensure that you have just enough money in your checking account to keep service charges to a minimum, and just enough to meet big bills as they come due, so that every cent beyond that can be at work earning a maximum return.

Budgets can be strong planning tools, forcing you to think ahead. And for couples, they can be aids to communication, helping you to be clear with each other about your feelings concerning money and the things money buys.

Although budgets can be all of these, too often the budget is a source of frustration and, for couples, arguments. A budget that's out of whack can be the symbol of everything that seems to be going wrong in a life — a job not going well enough, money not coming in fast enough, expenses running away with themselves, bad habits and personal excess. The best thing some people can say about budgets is that they're a boring, time-consuming paperwork exercise that doesn't really help them with their goals.

In this chapter, we'll try to do more than prevent your budget from being a nagging pain. We'll try to make it a positive force that helps you get more satisfaction from your hard-earned dollars.

WHAT DO YOU WANT YOUR BUDGET TO DO?

The first thing to decide is how you intend to use your budget, what you want it to do, and how much effort you're prepared to spend managing it. Make that decision before you try to create your budget, because it will influence the categories you select and the detail with which you will track your spending.

If your budget isn't designed to fit you specifically, it won't work. Budget keeping is tough enough to do well under the best of circumstances. Trying to do it with rules written for other people makes it just about impossible.

Let's take a look at several kinds of budgets, each of which serves its own special purpose.

A Casual Budget

Maybe you're fairly well fixed, and money isn't that important to you right now. You don't think it's worth the effort to fine-tune your spending or saving practices. So you want a simple system, one that won't take much of your time, that will organize your spending and make sure money is there when you need it.

In that case, you'll prefer a short, casual budget, with broad categories, and you probably won't review it very often or closely. Some people, in fact, write a new budget only when their income changes, and never look at it again until they write a new one. That's better than not writing one at all. For certain people, this style of budgeting may be all they really need: a periodic evaluation and sensitizing process that guides them in making their purchasing decisions.

A Tight Budget

Maybe your income and expenses are so tight that there is little room to maneuver. You want a budget that's clear and simple, one that will make it easy to spot problems quickly. For you, budget *writing* isn't the problem: money is.

In that case you'll want a short budget with a few, clear categories. You'll want to check how you're doing frequently, perhaps every month when you balance your checkbook.

A Diagnostic Budget

You may want to use your budget as an instrument to gather information for making better purchasing decisions. If so, you'll want to create descriptive subcategories you can use and then discard. A diagnostic budget is the one to use if, for example, you want to track the costs of your second car to see whether you can really afford it — or how much money would be freed for other purposes if you didn't have it.

A Problem-Solver Budget

You may want your budget to help you deal with some specific discipline needs: controlling your credit card charges, helping you deal with runaway clothing and cosmetics costs, getting a handle on bills that are persistently overdue. If so, you'll want to select categories and possibly subcategories to help you track spending in detail and identify problem areas.

A Long-Range Planning Budget

You may want to use your budget as the blueprint for personal planning and saving. In that case you'll use your budget to set a two-, three-, or even five-year plan that projects what your needs will be and how much money that will take. You'll think of the things you want and need most, and then plan ways to provide for them over the years as your income grows.

A Goal-Directed Budget

You may want to design a budget to help you reach some specific goals, such as establishing an emergency account, saving for specific large purchases (perhaps the down payment on a car or home), or setting up an investment program for more income now or retirement income later. If so, you'll want enough categories to help you exert strong control on spending. You may also want to devise some diagnostic subcategories to help you find candidates for reduction. Be prepared to commit a chunk of time to this activity.

STEPS IN WRITING A BUDGET

Assuming you have an idea of what kind of budget you want and need, let's walk quickly through the basic steps involved in writing a budget.

Determine Net Income

First, you need to determine what amount of money you're working with. Use the Money Planner Worksheet for income (Figure 1-1). It's easiest to do this on an annual basis, but later you'll want monthly figures for writing your actual budget. So, at the bottom, just divide the final total by 12.

As you fill out the worksheet, you'll need to decide whether to take the high side or the low side in making projections about future income. Once you put a figure down and start planning on the basis of it, it gets embedded in your mind. It can be discouraging later if you find you're sticking to your new budget on the *spending* side, but the *income* isn't doing its part.

To allow for contingencies, you can borrow a technique from corporate strategic planners: for variable items such as raises, bonuses, commissions, tips, gains from investments, and gifts, use a spread: worst case (lowest), best case (highest), and median (midway point between the two), or select a "best guess." For this purpose you'll need to devise a slightly more complicated worksheet, or complete more than one. The technique is illustrated in Figure 1-2.

Like some people, you may find it easiest to assume that income in the coming year will be the same as in the past year. If so, place contingency income—possible raises, bonuses, overtime pay, and the like—outside your mainstream figuring. Later, you can increase the budget when hoped-for money actually comes in.

Some people, however, find that Spartan approach too depressing: to stick to their tiny budget next month, they need to be able to look forward to the bump in pay they're expecting in a few months. But they should be realistic: is that raise really in the bag, or is it just a hope?

Couples should make sure that they are honest with each other and in agreement on income estimates from the start of their budget writing. Getting a raise should be a happy event, not a burdensome obligation that one partner imposes on the other. And it can be very destructive to a budget plan if one partner goes along with a modest projection just to be agreeable but is mentally fudging up the money available for spending.

Let's go back to the worksheet (Figure 1.1) on page 5 now. Start with your salary or wages. Don't subtract from this figure any voluntary deductions from your paycheck, such as charity donations. Even though they aren't part of your take-home pay, you still control this spending and you should list it as an expenditure later on.

Now add any additional income from tips, commissions, and bonuses, less taxes. Then enter income from any other sources in the right column on the worksheet.

Figure 1-1 Money Planner Worksheet: Income

			Income
A. SALARY, WAGES, ETC.			
1. Gross salary, wages (principal wagearner)		$______	
2. Minus deductions			
a. Federal and state income tax	$______		
b. FICA, Social Security	$______		
c. Health insurance	$______		
d. Other	$______		
e. Total deductions (add a through d)		($______)	
3. Take-home pay (subtract 2e from line 1 and enter result in Income column)			$______
4. Other gross salary, wages in household		$______	
5. Minus deductions		($______)	
6. Other take-home pay (subtract line 5 from line 4 and enter in Income column)			$______
7. Commissions, tips, bonuses		$______	
8. Minus taxes		($______)	
9. Take-home pay (subtract line 8 from line 7 and enter in Income column)			$______
B. OTHER INCOME			
10. Net profit from business, farm, trade, profession*			$______
11. Interest, dividents from savings, stocks, bonds, other securities, notes*			$______
12. Net profit from sales of assets*			$______
13. Net profit from rental property*			$______
14. Payments from others (e.g., alimony, child support)			$______
15. Tax refunds, rebates			$______

16. Cash gifts $________
17. Social Security benefits* $________
18. Income from IRAs, SEPs, Keoghs* $________
19. Pensions, annuities* $________
20. Veterans' benefits $________
21. Unemployment benefits $________
22. Disability benefits $________
23. Life insurance benefits $________
24. Income from trusts* $________
25. Royalties, residuals* $________
26. Less taxes on 'other Income' ($________)
27. Other income $________

TOTAL INCOME
(add all lines in Income column) $________

Divide by 12 $________ /mo.

*Allow for tax effects. Either use the after-tax amount or collect these amounts at line 26.

I know, you might look at that long list of "other" income sources and say "Don't I wish!" It's true that almost everyone gets almost all of their income from the first couple of items. Still, it doesn't hurt to remind yourself that there are ways to get money that are more fun than working, such as being paid dividend income.

Now add up all your income. The bottom line is what you'll carve up into a budget.

Describe Your Past Spending

The flip side of Income is Expenses. If you have already been keeping track of spending, chart last year's figures on the Money Planner Worksheet for expenses (Figure 1-3).

It will make it easier to develop the year-to-year comparisons you'll need later if you convert all your past spending to monthly totals. You may have trouble doing this with your lump sum expenditures—property taxes, the new tires for the car, the new clothes dryer, that expensive spring vacation. List such expenditures by name under the appropriate category. Divide the amount you paid by 12 to get monthly totals and put those in the Last Year (Monthly) column. If you financed a purchase through a credit card or charge account, and are still paying on it, enter the monthly payment for that purchase.

If you don't have a good, consolidated record of past spending, you'll want to do some research. It's a chore, but do it with your eye fixed sharply on the applied use of the information: you're doing it to help you make better decisions to give you more pleasure for your money. It's worth the effort.

Gather your existing records from as far back as you can manage. A full 12 months will help give you a feel for costs that are seasonal. Checkbook stubs, especially if they are not too terse or cryptic, can give you much of what you need. If you keep old bills, they can also help. So can past credit card bills, especially those that break out specific expenditures.

Figure 1-2 Example of Estimating Projected Income

	Last Year	Worst Case	Best Case	Guess
1. Gross salary, wages	$45,000	$45,000		
(*George gets $2,500 raise*)			$47,500	$45,000
2. Commissions, tips, bonuses		750		
(*Jan's bonus increases*)			1,500	1,500
3. Minus deductions	(6,800)	(6,590)	(7,920)	(7,000)
4. Take-home pay	38,200	39,160	41,080	39,500
5. Interest, dividends from savings, stocks, bonds, other securities, notes	1,600	1,600		
(*Mutual fund up*)			2,000	2,000
6. Net profit from sales of assets	0			
(*Sell boat*)		950	1,500	1,500
7. Tax refunds, rebates (*Income tax rebates*)	400	400	400	400
8. Cash gifts	500	500	750	750
TOTAL INCOME	$40,700	$42,610	$45,730	$44,150
Divide by 12:	$3,392/mo.	$3,551/mo.	$3,811/mo	$3,679/mo.