

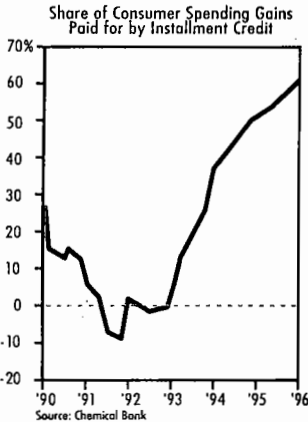


Bottom Line

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Credit Card Debt Can Be Dangerous To Your Wealth

If you take a hard look at your credit card statements, you will probably notice that most charges are for goods and services that you really didn't need.

The temptation to spend money is great, but excessive spending is financially dangerous and can lead to debt.

To effectively cut back on your spending—and avoid putting off long-term dreams—you must do more than merely hide your credit cards. You must change the way you think about money.

Whether you earn \$10,000 or \$200,000 a year, here are the steps you can use to avoid debt and save more income...

Step #1: Look at what you already own. Throw open your closets and drawers, and make a list of everything you see. By cataloging your possessions, either on paper or in your mind, you will be able to size up the true quality of your current life.

You'll also likely discover you already own plenty of everything. By recognizing that you have enough to be comfortable, you will be more likely to stop yourself the next time you think you must have something you can't afford.

Example: A woman I know opened her closet and counted 30 pairs of shoes. And she realized that she rarely wore most of them.

The way to have such a revelation is to ask yourself the following penetrating questions...

- What do I have?
- What does it mean?
- Do I still want this in my life?
- Do I need it in my life now?
- Can I give any of this stuff away?

Step #2: Compare your lifetime earnings with your current net worth. This step is important, and calculating the data isn't hard. Once you know how much you've earned over your lifetime—*net*—and compare it with your current net worth now, the difference will likely convince you to make radical changes in your lifestyle and spending habits.

Strategy: Start by getting a free *Statement of Earnings* from the Social Security Administration (800-772-1213). Estimate your other earnings over the years, such as gifts and capital gains from investments. Set the total aside.

To calculate your net worth, simply add up all of your assets and subtract from that number your total debt.

Look at the two figures. You'll probably be shocked at the difference.

Example: A friend of mine, a TV producer, found that she had made \$3 million in her lifetime but had less than \$100,000 in assets to show for it. She asked herself, *Where did it all go?* She realized a lot of it had been wasted on nonessential luxuries she couldn't even remember enjoying. The assessment convinced her to change her spending behavior.

Step #3: Calculate your real wage. When you spend money, you have to spend energy to earn it back.

Example: If you earn \$40 an hour, you must figure in extra expenses—such as child care, commuting and clothes. You also need to include the extra hours you spend commuting and unwinding from your job at the end of the day.

After you do those calculations, you may realize that you don't earn \$40 an hour—you actually only earn \$20 or \$25.

The objective is to find out how much you actually get paid for your energy and

to force you to confront the fact that you may be spending way over your head.

Step #4: Track your daily spending pattern. Most people ignore the fact that they are spending too much. They simply withdraw cash or use their credit cards and ignore the consequences.

Solution: Devise a system to track your daily expenses. Keep a little notepad with you, and write down every purchase you make. Then calculate how much time you must work to meet the expenses you pile up in each spending category.

Example: Say you spent \$200 last month on dining out...and your real hourly wage is \$20 an hour. That translates into roughly 10 hours of energy spent. Ask yourself if you received 10 hours of fulfillment from those restaurant meals.

Lots of people keep track of every penny, but they don't evaluate whether their expenses are worthwhile.

To assess the quality of your purchases, place an up or down arrow next to each expense to indicate whether or not it was fulfilling. *Ask yourself...*

- Did I get fulfillment?
- Was I happy to work that much time for each expense?
- Do my buying habits really reflect my values?

Chances are the answers will be all the encouragement you need to give up many unnecessary expenses.

Step #5: Consciously lower your expenses. Your expenses will decrease by 20% to 25% after you follow the previous steps. You'll become aware of the ways you spend your life energy.

Example: One man recently sold the red Jaguar for which he was paying \$390 a month in car payments and \$140 a month in insurance. He laughed when he realized that he had gotten the car to impress people. He sold the car, paid cash for a used car and cut his high monthly car payments and insurance costs by 50%. ■



Bottom Line/Personal interviewed Vicki Robin, president of New Road Map Foundation, an organization that helps people gain greater control over their money and their lives, Box 15981, Seattle 98115. 206-527-0437. The foundation offers a money-management audio-cassette course.

Ms. Robin is coauthor, with Joe Dominguez, of *Your Money or Your Life* (Viking Penguin, \$11.95).

